BOBBY JINDAL
GOVERNOR

PAUL W. RAINWATER
COMMISSIONER OF ADMINISTRATION

State of Louisiana
Division of Administration
Office of the Commissioner

March 22, 2012

The Honorable Chuck Kleckley
Speaker of the House of Representatives
P.O. Box 94062
Baton Rouge, LA 70804

The Honorable John A. Alario, Jr.
President of the Senate
P.O. Box 94183
Baton Rouge, LA 70804

Gentlemen:

As designee and on behalf of the Commissioner of Administration, Chairman of the Funding Review Panel, created by Act No. 448 of the 2005 regular legislative session, and in compliance with R.S. 11:108(F)(2), I report as follows.

The Panel met on August 30, 2011, September 30, 2011, November 15, 2011, January 30, 2012, and February 17, 2012. The Panel was charged with meeting monthly and submitting recommendations to the legislature for increasing the actuarial soundness of the three municipal retirement systems and providing an affordable benefit for members of each.

As required by law, the Panel heard extensive testimony regarding the benefit structure of each system and about funding challenges the systems are facing. At our February 17 meeting, the Panel adopted the following recommendations:

<u>Recommendation No. 1:</u>
The Funding Review Panel hereby recommends and expresses its support for Senate Bill 7, Senate Bill 9, Senate Bill 15, and Senate Bill 49 to be considered in the 2012 Regular Legislative Session.

<u>Recommendation No. 2:</u>
The Funding Review Panel hereby recommends the creation of two sub-plans for new hires based upon hazardous duty or non-hazardous duty for all three municipal systems (Firefighters' Retirement System, Municipal Employees' Retirement System, and Municipal Police Employees' Retirement System).

Personnel hired after January 1, 2013, would be placed in either the hazardous or non-hazardous sub-plan in the appropriate system. Determination of eligibility for the hazardous duty sub-plan would be based on criteria used to determine which police and firefighter positions are eligible to receive state supplemental pay.

The Panel recommends the employee contribution rate for the hazardous duty sub-plan continues in accordance with R.S. 11:62(3)/Act No. 238 of 2011 with the non-hazardous duty sub-plan members' contribution rate at 8.0%.

The Panel recommends that final average compensation for both the hazardous duty sub-plan and the non-hazardous duty sub-plan be calculated using the highest 60-month period of employment.

The Panel recommends retirement eligibility for the hazardous duty sub-plan be calculated as follows:

a. 12 years of service at age 55
b. 25 years of service at any age
c. 20 years of service at any age but subject to an actuarial reduction

The Panel recommends retirement eligibility for the non-hazardous duty sub-plan be calculated as follows:

a. 10 years of service at age 60
b. 30 years of service at any age
c. 25 years of service at age 55
d. 20 years of service at any age but subject to an actuarial reduction

The Panel recommends a benefit accrual rate of 3.33% for the hazardous duty sub-plan and a benefit accrual rate of 2.5% for the non-hazardous duty sub-plan.

Regarding disability retirement and survivor benefits, the Panel recommends abiding by the provisions of Act No. 992 and maintain the current provisions of the three systems.

<u>Recommendation No 3:</u>
The Funding Review Panel hereby recommends to the legislature the extension of the current 3-year DROP program to a 5-year program upon completion of 27 years of service for the Firefighters' Retirement System.

Although the recommendations of the Funding Review Panel are outlined above, we encourage you to read the attached minutes and supplemental information in order to understand the process by which the Panel arrived at the aforementioned recommendations.

Sincerely,

Steven Procopio
Assistant Commissioner

cc: Representative J. Kevin Pearson
Chairman, House Committee on Retirement

Senator Elbert L. Guillory
Chairman, Senate Committee on Retirement

Members of the Funding Review Panel

Attachments:
DRAFT – Minutes of the FRP Meeting of 2/17/12
Proposals for Review, 02/17/12
Minutes of the FRP Meeting of 1/30/12
Minutes of the FRP Meeting of 11/15/11
Minutes of the FRP Meeting of 9/30/11
Minutes of the FRP Meeting of 8/30/11

FUNDING REVIEW PANEL

Minutes of Meeting
Monday, February 17, 2012

I. CALL TO ORDER AND ROLL CALL

The meeting was called to order by Dr. Steven Procopio, designee of Commissioner Paul W. Rainwater, at 9:35 AM in House Committee Room 3 of the State Capitol, Baton Rouge, Louisiana. The Secretary called the roll.

ROLL CALL:

Recommendations Committee: voting members
Members Present:
Dr. Steven Procopio, Chair
designee of Commissioner Paul W. Rainwater
Mr. Stacy Birdwell – member of the Firefighters' Retirement System (FRS)
selected by the FRS board of trustees
Mayor J. Lynn Lewis of Delhi
selected by the Louisiana Municipal Association (LMA)
Mayor Randy Roach of Lake Charles
selected by the Louisiana Conference of Mayors (LCM)
Mr. Mike Sands – member of the Municipal Employees' Retirement System (MERS)
selected by the MERS board of trustees

Members Absent:
Cdr. Henry Dean – member of the Municipal Police Employees' Retirement System (MPERS),
selected by the MPERS board of trustees
Ms. Rina Thomas
appointed by the Governor

Advisory Committee: non-voting members

Members Present:
Senator Paige Cortez – member of the Senate Retirement Committee
appointed by Senate President John Alario
Mr. Charlie Fredieu
selected by the Professional Fire Fighters Association (PFFA)
Senator Elbert Guillory
chairman, Senate Retirement Committee
Representative Kevin Pearson
chairman, House Retirement Committee

Members Absent:
Representative Nick Lorusso – member of the House Retirement Committee
appointed by House Speaker Kleckley
Mr. Chris Nassif
selected by the International Union of Police (IUPA) from nominations submitted by the Louisiana organizations affiliated with the IUPA
Mr. Dirk Thibodeaux
appointed by the Governor

Staff Members Present
Ms. Sue Israel – Secretary
Mr. Paul Richmond – Manager, Actuarial Services, Office of Legislative Auditor
Ms. Sharon Betsill – House Sergeant at Arms
Mr. Jaubert Ambeau – Audio-Video Engineer, Speaker's Office

Others Present
Mr. Tom Ed McHugh –Director, Louisiana Municipal Association
Mr. Steven Stockstill – Executive Director, Firefighters Retirement System
Mr. Bob Rust – Executive Director, Municipal Employees' Retirement System
Mr. Randy Roche – Board Member, Municipal Police Employees' Retirement System
Mr. Gary Curran – Actuary, G.S. Curran and Company, Ltd.

In Mr. Dean's absence, Dr. Procopio appointed Mr. Fredieu as a voting member for this meeting.

II. APPROVAL OF MINUTES

Dr. Procopio called for a motion to approve the minutes of the meeting of January 30, 2012. Mr. Birdwell motioned; second by Mayor Lewis. The motion passed with no objection.

III. DISCUSSION OF PROPOSALS SENT TO RETIREMENT SYSTEM BOARDS, MERS RETIREMENT BILLS, AND RELATED ITEMS

Dr. Procopio asked Mr. Sands, who is a member of the MERS board, to provide a brief explanation of the four Senate bills proposing changes to MERS benefits.

Mr. Sands stated that the MERS bills presented in the packets are the result of analysis the system went through beginning in 2010 with Mr. Curran's help. They found that, in order to see real reductions in the cost of benefits, some of those changes must be effective with current employees because proposing new tiers only for future employees simply didn't have a very big return. Also, they found there were three things that should change in order to have a significant impact on costs: employee contributions, final average compensation, and accrual rates of benefits. He then briefly explained the legislation being introduced in the 2012 legislative session (that being Senate Bill 7, Senate Bill 9, Senate Bill 15, and Senate Bill 49, which were included in the panel's packets as items 1a, 1b, 1c, and 1d, respectively).

Senate Bill 7 proposes changing the final average compensation calculation from 36 months to 60 months. It is to be achieved by taking the highest 36 months and adding one month to that calculation each month for existing employees until the full 60-month final average compensation is reached. The system expects to see cost reductions on order of 2% from doing this. They believe if members are educated as to how it works, this would be something that would not be vigorously opposed since it does not cause loss of any benefit that has already been earned.

Senate Bill 9 is a proposal to allow the board to establish employee contributions in a range of 8% to 10%. Employee contributions are currently at 9.25% in MERS, and this bill would allow the board to increase those contributions when needed. The upper limit of 10% is the same rate as is currently being practiced in fire and police. Mr. Sands said it has been his experience in Lafayette that MERS members do understand that there is a need for them to contribute more, and there is a willingness to do so.

Senate Bill 15 is a reduction in benefit accrual rate for elected officials. It reduces their accrual rate by 1/2% to the same rate as other members of the system. Although this is a very small reduction that will not have a large impact, it is one that is perceived as being just by most members.

Senate Bill 49 proposes a second tier of benefits for new hires employed after January 1, 2013. Those people would be subjected to a 60-month final average compensation and eligibility points of 7 years at age 67, 10 years at age 62, and 30 at age 55 for Plan B and the same for Plan A. This is expected to yield a relatively small reduction in cost of benefits and is expected to take five years to see any benefit because it is for new hires only.

Mr. Bob Rust, Executive Director of MERS, added that, while it doesn't appear that there will be a large savings from Senate Bill 49, it does appear that it will have an impact over the long term. He explained that the board thought it was important to start making changes to the system now, even though it appears it will result in small savings now, because it should show a significant savings down the road for the demographics of their members.

Sen. Cortez arrived.

Rep. Pearson questioned the reasoning for continuing to allow retirement with 30 years of service at age 55. He said the state has been looking at this issue, and most actuarial tables he has seen are showing expectancy of both husbands and wives living into their 90s. Looking at this long term, he questioned why MERS would not look at 30 years eligibility at even age 60.

Mr. Gary Curran, actuary for MERS, as well as the other two systems, explained that there are two components to all these decisions. One is general philosophy and the other is cost. From a cost standpoint, a provision such as 30 years of service at age 55 doesn't seem to be out of line today because you don't have a lot of people being hired at age 25 or below that are going to stay and qualify for this. He said the average age of new hires has gone up substantially, with many new hires coming in during their 30s and even 40s, so there is not a lot of leverage to be gained on that item. He said longevity is always being looked at as an issue, but today you don't hire many people at 18 years of age who will stick around till retirement age. So from a cost standpoint, there's not a lot of leverage on that item, and it may no longer be as big of a component as you would think. He added that he is not saying that it has no impact, but he is saying it likely has less impact than people might perceive because of the distribution of that population.

Sen. Cortez questioned the actuarial rate of return on the bill, and Mr. Curran advised it is currently at 8%. Mr. Rust added that, if you lower that rate, it will result in a significant cost increase. Sen. Cortez replied that if you don't attain it, you have a significant unfunded liability, which he thinks it's very relevant.

Mr. Curran explained that, in the case of a defined benefit plan, the cost of the plan is the cost of the benefit paid out. No one knows what the rate of return should be or will be because it is an estimate. There are definitely problems if the rate returned is off from what it was expected to be. If the rate is set too high, you'll wind up back-loading your cost and having an increase. If it is set too low, you'll end up front-loading your cost and paying more than necessary in early years and less in later years. He said there is certainly some concern with rates today. The investment community is much more restrained now in predicting earnings than they were 10 or 15 years ago, and there is certainly a downward trend in rates nationally. But in the end, it will depend more on what the actual earnings are, not what the assumed earnings are in terms of actual cost to the system. The rate matters in terms of the distribution of cost. It allocates cost from one generation to the next.

Sen. Cortez asked if there were no way to share the burden, and Mr. Curran stated that the best way to share the burden is in predicting the rates, but that is an unknowable quantity. Right now, everyone is concerned with rates being predicted too high, but the opposite was the case in the 1990s.

Sen. Cortez asked if the actuarial rate of return has changed over the years, and if so, what the thought process was.

Mr. Curran explained that the current rates were set in the early 1990s at 8%. This is not a monolithic rate because you'll have different rates for different systems. While the big state systems are currently at 8.25%, the fire and police are at 7.5%. For the most part, the rates were set based on the type of investments, and in some cases, the rates were set artificially low because they wanted to use that "excess interest" to fund things like COLAs. But in the 1970s and 1980s, dramatic increases in rates were seen and investors could lock-up rates at 9, 10, 11, and even 12%.

Sen. Cortez stated that the assumed rate of return is supposed to be attainable, at least over the long term, and so he questions why these systems are in the condition they are now in and if that is because the assumed rate of return has not been attained.

Mr. Curran stated that there were probably a lot of reasons for that, but one big reason was a very concentrated period of underperformance.

Sen Cortez asked if it will take a very concentrated period of over-performance to make the systems whole. He said these committees and the legislature look at all these other issues and things start to get changed, but in his mind, the assumed rate of return is never really looked at as one of the dynamics that put the systems in this position.

Mr. Curran said that is being looked at seriously. He said they have recommended to some systems that they reduce their rate of return, which is being studied, and there are national standards being looked at as well. The effect of that is to push up short-term costs, with there being no way around that. It is his feeling that you should try to manage your way through these crises as best you can and be opportunistic about making these changes. He said if we get to a time of short-term good performance, then we might want to use that good performance as an opportunity to lower the rate in cases where it's necessary. The current cost structure is based on two things. First, it is based on unwinding the losses that we've had, and amortizing those out. The period over which those will be amortized will be dependent on the funding method for each individual system. In some systems, it is put into normal cost and will be amortized effectively over the future lifetime of the current members, and for some systems such as fire and police, it will be amortized over a fixed period of time, which is dependent on the statutes.

Mr. Curran continued. If we presume going forward that in the long run we'll have the current earnings over a period of time (in some cases 7.5%, 8.25% in others), then the rates we see now will be the long-term rates, subject within about two or three years to very slow declines as we start to unwind some of the amortization on some of those rates. The help comes in that some of those amortization payments are level dollar payments, and if you get any growth in payroll, it will help dilute those amounts. So when you're finished, you've got two things to deal with: First, you have to complete the smoothing period, which is another two years because, in some cases, you have a five-year smoothing. Once you've completed the smoothing period, then you've got to amortize that loss over a period, which would depend on the system and could be 20 years, 30 years, or over the future working lifetime. For all of these systems, he said, there is a natural dilution of these payments so that very slowly, very gradually that payment would come down. However, if you have a long-term secular problem where you cannot consistently earn the set rate of return, then you will have a very serious problem in trying to deal with that. He said they do not yet know, in effect, if that earnings debacle back in 2008 and what was faced earlier is an aberration or a harbinger of things to come. If it is an aberration and we can return to some normalcy, to earning around 8%, then this process will unwind itself—painfully, but in a way that is manageable. On the other hand, if there is some structural change in the economy and those rates are simply not achievable anymore, there will be very serious problem in trying to deal with that.

Sen. Cortez said he understands that the last thing you want is to have some inconsistency in it, but out there in "defined benefit world," is there some flexibility with regard to the assumed rate of return and the other costs?

Mr. Curran explained that the assumed rate of return is not a cost item but is a cost allocator. It doesn't change the cost; it just allocates the cost to now and later, in effect. He said there is certainly some flexibility, that there is a range in which you'll find these rates.

Sen. Cortez explained that he was asking about flexibility within a system and asked if there are systems that tend to fluctuate based on conditions.

Mr. Curran said this is not the type of thing that you'd typically change every two, three, or four years. He said the exception to that would be a case where have you made a decision to arrive at a certain point and you want to get to that point over a period of time. But normally you don't want to change the rate up or down when you're getting to a time just when things are about to change. He said there was a problem in the 1990s when people were trying to force it up, which proved to be a very bad decision. As an actuary, he said, you want to be conservative. You like to get that rate down, but the reality on the ground is you don't want to force all that pain and suffering on everybody when it's unnecessary. But there does come a point in time when reality must be faced. If the reality is we can't earn 8%, then we need to change the rate, but he thinks there is still some debate or discussion to be had about that.

Mayor Roach said, following up on the discussion on the assumed rate of return brought up by Sen. Cortez, as he appreciates the point Mr. Curran was making, regardless of where the rate is set, we are looking at a total cost and the rate affects the cost. And so, he asked, if the rate is set too high, would the unfunded liability then increase?

Mr. Curran said that would depend on the funding method. With a system like MERS, it doesn't matter because the unfunded liability is what it is and the only component of cost that's going to change as a result of loss or gains is going to be the normal cost. For firefighters and police, however, any losses will get forced into the unfunded liability. But that's somewhat irrelevant because those are just two pieces of the cost structure. The important thing is what the cost is at the end of the day.

Mayor Roach agreed that it's what the cost is at the end of the day, but he pointed out that when your system has capped the employee's contribution, then that cost is transferred over to the employer. So whether you pay now or you pay later, somebody is going to pay that cost. And when you fix the rate of return, you're effecting how that allocation is going to be made—depending on the system and depending on the funding sources.

Mr. Curran agreed and said what you ideally would like to have is cost level as a percentage of payroll, but you will never achieve that. Although it is an important factor, it is not clear what the exact number should be, but they can tell within a certain range. While they know the rate doesn't need to be 10% and have also figured it shouldn't be 6%, trying to zero in on what it should be between those two extremes is a little difficult. He said it's clear now that 8% is about as high as you want to get.

Mayor Roach asked with Senate Bill 49 and a new system for new hires, what would be the problem in reducing that assumed rate to 7% or 7.5%?

Mr. Curran explained that the bill does not propose a new system for new hires, but rather a new tier for the new hires. There is a very big difference because the asset or trust funds will not be segregated, but will be pooled. Thus, you cannot have a valuation interest rate separate for that as a separate group unless you structure them in a separate trust fund with a separate experience. That could be done, but it would change the dynamic significantly. Mr. Curran said he is not saying that is something that couldn't or shouldn't be considered, but it is not the way they went about it with this proposed legislation.

Mayor Roach said he understood from previous discussions the implications of creating a new tier and the impact on the old system versus the new system and that, as long as you don't segregate the funds, you preserve the integrity of the old system because you're depending on the new system to support the old system.

Mr. Curran agreed, stating that the impact of new hires on the cost structure generally is to dilute those costs because all that legacy cost is getting spread out among those new members, rather than being segregated and attached to the existing group, which is shrinking.

Mayor Roach said on the other point that Rep. Pearson raised on the age of retirement, Mr. Curran had indicated that might be more of an issue from a philosophical standpoint. But at the end of the day, he asked, doesn't the longevity of the population of your group affect the cost of the overall system over time?

Mr. Curran said yes, it does. He said he is not saying that those ages of retirement are irrelevant, but they may not be as significant as people believe them to be because of the distribution. But that's not in any way a claim that they have no effect on the answer.

Mayor Roach explained that from his standpoint, what he is trying to do is not be persuaded by how big a cost savings is as much as trying to redefine a system to the way that it should be. He realizes that over time it's difficult to say what will happen and that they must do what they can to project those costs. But even if they can project only a small cost savings that could increase over time, he believes they should save whatever amount they can save. If the panel decides to support the Senate bills being discussed, he thinks everyone understands that, just like any piece of legislation, these bills will also have to go through a process, and that process is going to allow for different ideas relative to the details. But rather than getting wrapped up in the details, he thinks the panel should offer a strong statement of support for the change in the retirement system so the process to bring these retirement systems to an affordable level can begin.

Dr. Procopio asked Mr. Rust to briefly explain the nature of MERS, the fact that it is voluntary, and about the fact that there is a Plan A and a Plan B and the differences.

Mr. Rust explained that Plan A does not include a Social Security portion, while Plan B is integrated with Social Security for those cities that want to continue with Social Security and still have a retirement benefit. Those in Plan B with Social Security accrue at a rate of 2%, which does not change in the proposed legislation. In Plan A, the accrual rate remains at 3% in the proposed legislation. The only accrual rate they are proposing to change going forward is for elected officials. Because MERS is totally a voluntary system, that is why the board is so focused on providing a good, reasonable benefit at an affordable cost. While costs are where they are right now, Mr. Rust said they would still like to get them down even more. He agreed with Rep. Pearson's and Sen. Cortez's comments made earlier in the meeting. MERS does have an aging population and has had people retiring in their late 40s and early 50s, as is most likely the case with other systems. Senate Bill 49 is an effort to try to lengthen the time that contributions will be paid for the new hires in order to bring down those costs. While he does not think they can accomplish that for existing employees, that is what they hope to do for new hires.

Mayor Roach offered a motion that the panel include in its report to the legislature its support for Senate Bill 7, Senate Bill 9, Senate Bill 15, and Senate Bill 49. Second by Mayor Lewis. The motion passed with no objection.

Dr. Procopio called the panel's attention to previous proposals that were being brought back for the panel's consideration, starting with what has been referred to as the LMA Proposal (that is, Proposed Law January 1, 2013, which was included in the panel's packet as item 2a).

Mayor Roach asked Mr. Steven Stockstill, Executive Director of FRS, to talk about the discussion from the January 30 meeting relative to the concept that was used in Act 992 of 2011. That act, as well as the proposal being discussed, uses the criterion of POST certification to differentiate between the employees in the hazardous and non-hazardous classifications. Since firemen generally are not subject to POST certification, Mayor Roach said he thought Mr. Stockstill had made a good point about that being a concern as a criterion. He asked if that criterion were replaced with a requirement of eligibility for state supplemental pay, if that would address the concerns Mr. Stockstill had expressed over hazardous and non-hazardous in his presentation at the prior meeting.

Mr. Stockstill said he could not answer without reviewing the law, but he believes that any type of definition that adds clarity to where the concept was started would add value to the proposal.

In looking at the Lake Charles fire department, Mayor Roach said it appears that just about everybody in terms of fire prevention and fire line personnel receive supplemental pay, but primarily the ones that are in the clerical positions do not. Under the circumstances, it seemed to him that using supplemental pay as a criterion as opposed to POST certification would be easier to administer from an administrative standpoint, and certainly so if a two-tier system were created based on Act 992 for the fire system and police systems.

Mr. Stockstill suggested that one of the things that should be taken into consideration is if that law would apply to all firefighters, or if are there are segments where some firefighters are not receiving supplemental pay even though they are, by common sense, what would generally be considered hazardous duty employees.

Mayor Roach agreed, stated that this was something that is probably outside of the purview of what could be accomplished today. As for any recommendations that might be made today, he said the panel would have to recognize that they would be making those recommendations based on the retirement implications and recognizing that, as previously mentioned, as these concepts move through a process, they will have to be refined. Because as Mr. Stockstill had pointed out at the last meeting, there are certain practical implications that have nothing to do with retirement and everything to do with the administration of the system—how you administer it from a practical standpoint. And so Mayor Roach said it is his thought that some details might be beyond the ability of the panel to determine today. He said he is still looking at this proposal from a very high level and trying to make sure that whatever recommendation is made will make sense, but not to get too far into the details of some of these issues that are outside of the criteria of retirement because the panel simply does not have that expertise and can't anticipate all those items at this time.

Mr. Stockstill said he agreed, but it is his hope, as a piece of legislation like that would move through the process, that there would be enough time allowed for the systems to meet with the elected officials' staffs behind the scenes to carve out the details that would be necessary as the bill moved through the process.

Mayor Roach said the only other thing he would mention is that the panel is now pretty familiar with the presentation that was made relative to this proposed new system. The new system, as it was presented by representatives of the LMA, is based on Act 992, which was adopted by the legislature and which used the criteria of hazardous and non-hazardous and differentiated between the two, but basically created a new system for new hires. That proposed legislation is very similar to Senate Bill 49 for MERS, and he said he would encourage the members of the panel to incorporate this as a recommendation into the report to the legislature, with the only change being to substitute supplemental pay as a criterion for determining which employees would be classified as hazardous or non-hazardous pay.

With that said, Mayor Roach made a motion to take the proposal that was submitted to the panel as "Proposed Law January 2013," labeled in red as item "2a," and to include this as a favorable recommendation in the panel's report to the legislature, with the only change being that the criteria used to determine hazardous and non-hazardous be the eligibility for state supplemental pay. Second by Mayor Lewis.

Mr. Birdwell commented that it is possible that 30 years from now, when all the original employees are gone and they are looking at the tier created for new hires, it could end up saving only 1/3 of 1% if they are maxed out at the 8% accrual rate for firefighters, and figured at 1/4 of 1% of savings for police. He asked panel members to consider if that level of savings would be worth what it took to implement the changes. He said that while he knows that every little bit adds up, he thinks it possible that more costs could be incurred in having another employee to administer the new tier than the savings that might be seen in the end. And as Mr. Stockstill stated at the January meeting, they can't get some jurisdictions to report the right amounts now on their employees and thus are not paying on the salaries that they should be, and he questioned how they would be able to enforce the new provisions. While he is not opposed to the new tier, he said he would prefer to remove the criterion for hazardous and non-hazardous employees because he believes it will only hamper people from moving into what might be considered by some to be non-hazardous positions and could instead result in many employees retiring early rather than going into the non-hazardous system with a lower accrual and a lesser benefit.

Mayor Roach said again that he certainly accepts the concern with how you distinguish between hazardous and non-hazardous. But as long state supplemental pay is used as a criterion, they would not reinventing the wheel and they would be using a criterion that is very familiar to all at the local level. Both firemen and policemen are familiar with state supplemental pay and how that affects them at the local level. And as long as a person is eligible to collect state supplemental pay, they are placed in the hazardous duty classification. And again, irrespective of the actual cost savings, he thinks it is important that whatever new system we begin with, that we begin with something that is structured and makes sense going forward from a long-term standpoint. He believes there is really no justification to put clerical personnel who don't qualify for state supplemental pay into the hazardous classification. State supplemental pay eligibility is the only thing he can think of that is in place right now that helps in making that determination.

Mr. Fredieu said he doesn't believe this proposal would accomplish what is intended since all you have to do to receive supplemental pay is to have the training. He said some alarm personnel can get training that would qualify them to receive supplemental pay. In fact, almost everybody that works for the fire department receives supplemental pay, so that criterion would not remove very many employees from the hazardous pay classification.

Mayor Roach said he would not disagree with that, but he is just trying to use something that makes sense as a starting point. As he pointed out earlier, as we get deeper into the issue, from an administrative standpoint, we might come up with something better. He added that he certainly wouldn't want anything done by the FRP to be interpreted by the legislature as saying that we can't refine it. But the panel has got to get the recommendation into a report and get it issued so the legislature can begin working on it. As long as this idea is stuck in a proposal with the FRP, it will not get very far as far as the legislature is concerned.

Mr. Stockstill said he thinks the listing of specific positions that the original proposal contains seems to be the more favorable approach, as it would be easier to administer and to communicate to the departments. The people in those positions are or are not hazardous duty, and he would like to have further discussion on using state supplemental versus the job classes listed in the proposal.

Mr. Randy Roche, representing the MPERS board, said the board of trustees discussed the LMA proposal at its meeting on Wednesday and in fairly good length. One of the first questions they had was why these employees should be contributing only 9.5% when the regular members are going to be contributing 10%. There were also questions about other provisions of the benefits, and this proposal only addresses very limited issues. He said their board doesn't know how those benefits would interact with other benefits in the system because they haven't been compared with the other benefit structures. Their board made the decision to be proactive and to create a committee to see what changes they can make on their own that would reduce the cost of the plan. Their fear is that they're going to have to start laying people off because the rates are becoming so high, so next month they are going to begin pursuing other cost savings through their new committee. They anticipate changes for new hires but recognize that it may also have some effect on current employees.

Dr. Procopio summarized that one of the problems identified by the MPERS board is that the employee contribution rate it is currently higher than in the proposal, and the second concern is that the board is not sure how the proposed changes will interact with other benefits. He asked Mr. Roche to explain the benefits in question.

Mr. Roche stated that there are other benefits such as disability and survivor benefits that must interact, and the proposal does not cover all of the issues and all the benefits of the plan. He said MPERS has a bill under consideration in the current session that is going to remove all of the non-hazardous duty employees from the plan as of July 1 of this year.

Mr Birdwell said he would like to amend Mayor Roach's motion by removing the terms "communications, IT, and fire clerks" in the third paragraph of the proposal and replacing that with "state supplemental pay eligibility."

Dr. Procopio said he thought Mayor Roach's motion included that instruction, since he had moved to adopt the proposal except with supplemental pay. Mr. Birdwell said he wanted to be certain that the proposal did not include both the provision for supplemental pay and those classifications. Dr. Procopio stated that those concerns were duly noted and asked Mayor Roach to confirm that that was his intention, which he did.

Mr. Fredieu cautioned the panel to be careful in classifying hazardous versus non-hazardous because in Shreveport, training positions do handle hazardous chemical spills, which is very hazardous work, and in firefighting, you have very few people other than secretaries and the fire alarm people who are not in hazardous positions.

Mayor Roach said it is his understanding that the people Mr. Fredieu is referring to all receive supplemental pay, which is the criterion included in his motion, so those employees should be covered.

Mr. Stockstill pointed out that supplemental pay doesn't begin until a certain period and ends at a certain period, which is probably something that needs to be addressed.

Mayor Roach said Mr. Stockstill is correct that a first year a firefighter does not receive supplemental pay, but they are still eligible positions, so it's the criterion that's used to receive it rather than the actual receipt.

Mr. Sands pointed out that the proposal that was presented by the LMA calls for an employee contribution of 9.5% for hazardous duty.

Dr. Procopio asked Mr. McHugh if it was the LMA's intent to give employees a 1/2% reduction.

Mr. McHugh said what they had done, as requested, was to look at Act 992 and try to craft it in such a way that it would be a discussion proposal to see if it would work. The 9.5% contribution was what was specified in Act 992, but it would be appropriate to keep it at the 10% contribution level with the other system. Dr. Procopio asked if the 10% would be in the floating rate, and Mr. McHugh stated that was correct, as what was determined in last year's session of the legislature.

Mayor Roach said he would withdraw and resubmit the motion with that amendment to "Proposed Law January 1, 2013" (Item 2a) with the floating rate as it is currently computed, as contained in the legislation that was passed in the last session of the legislature. The motion was seconded by Mayor Lewis and passed without objection.

Next, Dr. Procopio asked Mr. Birdwell to speak on the "Proposal on Extending DROP" (Item 2b in the panel's packet).

Mr. Birdwell said he believes that offering an option of a 5-year DROP if the employee completes 27 years of credible service would help keep their employees employed two years longer and paying into the system for those additional two years before entering the DROP, which would also result in the retirement system drawing the interest on those contributions over that two-year period. Right now in Shreveport, he explained, the total payroll is $27.5 million per year, and they have almost $4 million of their top salaried people that are in DROP for which the city is not contributing, which breaks down to $938,000 per year that Shreveport is saving in pension contributions. He is not sure how other municipalities would be affected by a two-year extension, but it would certainly help Shreveport save on pension contributions and they believe would also help keep people employed longer.

Mr. Curran said they had done a study a couple of years ago and have since revisited it and looked at it from a different perspective, with a slightly different nuance this time in terms of the way it was proposed. They found that, as they looked at people who were either in or would enter the DROP prior to such a bill being introduced and had simply entered the DROP, and then did a comparison of those same people who entered the DROP at the same time but stayed in for that extended DROP period, there would definitely be a significant savings on that group. However, there are some other issues involved. Currently, in the firefighters system and in virtually any DROP plan, there will be some people who continue their service past the DROP period. In the case of the existing FRS, approximately 20% of the people that go into DROP continue their service past that point, and those people right now represent a considerable savings, or reduction in cost, to the system. The present values work out to be less for that group, plus you're getting in delayed contributions for them for that post-DROP service. If you change that from a three-year to a five-year DROP, you will lose a lot of that post-DROP service because they would spend that additional two years in DROP, which at some point will raise the cost for that group. There's also the potential that you will have some people who will choose to enter DROP two years earlier than they would have, so they will have a two-year longer DROP period. Instead of working 29 years and entering the DROP, they will work 27 years and enter the DROP, and then exit at the same time they would have. That group will have a mixed result because you will lose money on some people and gain on others, so you could have a slight loss from that group. Then there is about 30% of the population that doesn't enter the DROP at all and chooses regular retirement. Looking at all those factors, he said they could not arrive at a significant enough change in the cost structure to say that the extension would save any money because of the offset of those that save and those that lose.

From the employer's standpoint, for those employees who will be in the DROP for an additional two years, if the employer is not paying a retirement contribution while that employee is in DROP, it will raise the cost of those who are not in DROP because the unfunded liability payments are a fixed dollar amount. And if you take the payroll and divide it into a paying and a not-paying group and have more people who are not paying, then you must make up for those unfunded liability payments in the paying group, and thus the cost for that group will certainly increase. It must increase as a percentage in order to generate the same number of dollars for the unfunded liability payments. At the end of the day, Mr. Curran said, they believe there to be a low probability that this proposal would either cost or save much money.

Mr. Stockstill asked if the net cost to the system were neutral, would that mean that if the five-year DROP were instituted according to the study, then the cities would benefit by not having to make contributions for those employees during that period of time.

Mr. Curran said they think the answer is no because there would be less people paying to the unfunded liability, and those people would have to pay more to cover the payment. The cost will have to go up for the paying group just on the basis of the unfunded liability payments alone because there will be payroll shrinkage on that group. The other thing that's going to have an effect here is it's possible that a city with a high DROP population would save money on this because it’s not going to be uniformly distributed throughout the whole group. For a city with an older population with more people in DROP, there may be a savings for them paying on the zero amount than they’re going to lose on the increase. Conversely, if you have a city with a very young population with less people proportionately in DROP, they may have an increase in cost because they’re not going to get as much savings. But in aggregate, they believe the employers are going to come out about even. At the end of the day, they don’t expect it to make much if any difference.

Mr. McHugh said there are a lot of people who really don’t understand the DROP, and there is an impression being made that during the period of the DROP, nothing is happening, that no one is making contributions. However, he asked if he was correct in his understanding that during the DROP period, the person’s retirement is being paid by the system into an escrow account and being held for that individual, and that is a considerable amount of money.

Mr. Curran said there are two different paradigms in terms of how this is viewed. In fact, different systems are funding it in different ways, and they’re both valid approaches. In one case, the money is accumulated up until the day the person enters the DROP in order to pay him his benefits when he leaves the DROP. In the other case, which is most of the statewide systems, money is accumulated until the day the person retires to pay him everything. Both of them arrive at the same result by a somewhat different way, but it kind of skews the analysis on it. You could have some people paying more with some paying zero, or have everybody paying the same amount and everybody pays less than the current paying group. You get the same result.

Dr. Procopio asked if most statewide systems do not pay the employer contribution while someone is in DROP.

Mr. Curran said that most statewide systems are paying contributions during DROP. However, fire and police do not. He thinks the concept when DROP was created was they would treat those people as if they were retired and thus would have to accrue those benefits by the time they enter DROP. But for the other systems, they are treating them like they are still on the job and pay their employer contribution while they’re in the DROP. They have to accrue the same amount of money but have a little longer period to do so.

Asked about the employee contribution, Mr. Curran said that almost no one is paying that. In the past there were two systems that paid an employee contribution, but they have since phased to back DROP, so it’s moot for them. But the paradigm was you can either pay contributions up until the time of DROP or you can pay through the end of DROP.

Mr. Birdwell said, while every system is different, for firefighters the money is held by FRS and the system draws the interest on it. Some years there may not be a lot of interest, but overall FRS does make money on the DROP. For example, for someone who does his full 30 years, signs up for DROP, and stays in DROP for three years, that person would make the system more money than if he were simply to retire. So an additional two years in DROP would result in that much more savings to the system. And they are confident their people will want to continue working if there is this opportunity to make additional money for themselves. He asked Mr. Curran if the 30% of people who do not participate in DROP includes those with disabilities or those with a vested 12 years who aren’t yet due a benefit.

Mr. Curran said the 30% is strictly those moving from active status into retirement, and that 30% doesn't change the cost to the others that do participate.

Mr. Fredieu asked Mr. Curran if he subscribed to the philosophy that leaving the system early will cost you money but staying longer in the system saves money.

Mr. Curran answered that if something causes you to stay longer, it saves money, but if something causes you to leave early, it may or may not cost you money, depending on what the pay increases are and what the ages are. He said it could go either way for the people who are entering DROP earlier, and there is not a big movement in cost. However, he pointed out that the group that is saving you money now is the people who continue to work after the DROP period ends. Those people who will instead choose to stay in DROP longer will definitely reduce that savings. The average is somewhere around a 10% loss on the present value.

Mr. Fredieu said if a firefighter stays in the system longer, the system benefits because it earns the interest.

Mr. Curran agreed that there are very significant savings if DROP is extended, but the system will lose some of that savings. He said DROP is a reallocator of resources, and the costs can flip back and forth depending on the individual circumstances.

Mr. McHugh said he believed there were two things to keep in mind. First is the fact that an extension could create additional cost, which would not be beneficial under present circumstances. Second is that over the course of the 11 years he has watched the legislative process and retirement issues, he has heard some concerns from Mr. Curran and others about special legislation that comes in and effectively changes the original intent of the DROP, and changes it from being cost neutral to being a costly venture. So an increase from three to five years when those sorts of things did happen would certainly cause concern. He asked Mr. Curran if, over the years since DROP was originally proposed, he had seen changes made through the legislative process that had created costly increases to the employer.

Mr. Curran said those situations had generally involved special interests where people were attempting to un-do irrevocable decisions, which always included an attached cost.

Mr. Birdwell asked Mr. Curran if there would be more of a cost attached to a five-year DROP than a three-year DROP.

Mr. Curran said he thought the scales would tip a little in favor of a small saving of money, but with the margin of error, they just couldn't be certain and he did not see much difference in a comparison of the two.

Rep. Pearson asked Mr. Curran if there were a reason to extend DROP to five years for these systems, why they wouldn't want to do so for all systems and all employees that are eligible.

Mr. Curran said he would be very careful about generalizing on things of this nature because it would depend on many factors that are very system specific. Things that apparently have no cost one place may have a cost elsewhere or even a greater savings. He said it would be dependent on the demography of the group, on how steep pay increases were, and many other factors, and he believes that trying to universalize on them could be pretty dangerous.

Rep. Pearson said it does almost seem that if you implement the extension in one place, you would do it for another and another.

Mr. Curran explained that there are many pieces to be considered. When you look at DROP, the outcomes are so radically different depending on the way the assumptions are put into it. Short service versus long service is a big piece of it. Someone who goes into DROP with short service is almost always going to be a loser, and you've got certain groups where that's more of a preponderance today than in fire and hazardous duty and groups where you have typically long service personnel. The steepness of the payroll increases is also a big item. If the pay plan is rather flat at the end of someone's career and there's not much chance for promotion, then the DROP is a better bargain than in some cases where the people are subject to a lot of pay increases for a whole variety of reasons. He said they have seen a lot of cases where people have given up a whole lot in terms of present value going in, and that varies a lot depending on the system.

Rep. Pearson asked if that meant that the advantage would be with someone who is a bit more astute in making decisions, and if people would be allowed to make bad decisions too. Mr. Curran said yes, that is a part of it too.

Mr. Birdwell made a motion to support the idea of implementing a 5-year DROP upon completion of 27 years for the FRS.

Mayor Roach said, while he would not want his opinion to be interpreted as a categorical no, he thinks that, at this particular point in time, there are some administrative issues with the extension that need further evaluation. He will have to take a look at his own situation in Lake Charles to know exactly what it would do for the city, and thinks most communities will have to do that as well. There are also some implications aside from the retirement issues. Even assuming it to be cost neutral, it does have some implications from an administrative standpoint with respect to promotions within the system and other factors. Longevity and seniority do affect. The civil service system is based on seniority, so there are other implications aside from this just being a retirement issue. Therefore, he said he didn't feel he could support the motion at this time. He would not say that he couldn't support this issue at some point in the future, but he would certainly need more information. He also thinks it important to recognize that whatever recommendation comes out of this meeting, the panel should try to ensure that the recommendation is examined in regard to all the systems and be able state the reason for its decision if they do not propose their recommendation for the other systems as well.

Mr. Sands stated that the statute that creates the panel casts members with the responsibility to increase the actuarial soundness in providing affordable benefits. He said he did not believe the panel had seen the evidence that this proposal does that, and he believes it would open the door for employees to commit to work for five years with zero benefits accruing while they're in DROP, which he thinks is a mistake, so he must oppose it.

Mr. Birdwell said he wants to ensure that panel members understand that DROP is voluntary and that employees do not have to participate, nor do they have to participate for the full five years. In other words, it is an option. Also, regarding Mayor Roach's concern about firefighters' seniority and promotions, he appreciates that concern. But he also wants to let panel members know that during their recent state convention, where they had statewide delegates representing 3,300 firefighters, a motion to support the extended DROP had passed unanimously.

Noting one objection, Dr. Procopio asked the secretary to call the roll. The motion carried with four yeas and two nays. Yeas: Dr. Procopio, Mr. Birdwell, Mr. Fredieu, and Mayor Lewis. Nays: Mayor Roach and Mr. Sands.

Dr. Procopio said the extended DROP will be recommended for review for legislation and asked if there were any other proposals to be voted on. There were no other proposals for review.

IV. DISCUSSION OF REPORT TO BE SENT TO THE LEGISLATURE

Dr. Procopio said the panel's report to the legislature would include the recommendations approved by the panel in today's meeting and asked for any input the members might want to offer.

Mayor Roach thanked Dr. Procopio for the hard work and attention he had given to the panel, especially given that retirement issues were not a part of his daily responsibilities. He said he would ask that the report the panel will make to the legislature not only include the motions and recommendations from today's meeting, but he also suggested that it include the meeting minutes and perhaps some kind of cover letter from Dr. Procopio encouraging legislators who read the report to look at those minutes, because he thinks they will find them very instructive and informative, especially for those who might not be as familiar with the retirement systems as some of the professionals who have spoken before the panel. He added he believes that Mr. Curran and some of the others had done a good job of trying to explain some of these issues in the context and in terms that everyone can understand, which had been documented well by staff in the minutes, so he would encourage and ask that the report include the minutes and other supporting items.

Dr. Procopio thanked Mayor Roach and thanked his staff as well. With no other suggestions regarding report content, Dr. Procopio confirmed that the report to the legislature would include the motions that were made today, the minutes, a cover letter, and the supplementary material that was presented in the panel's packets for today's meeting.

Mr. Sands asked if the report would be drafted and circulated among the panel members.

Dr. Procopio proposed that he and his staff will draft the report, and will send it to panel members for comments. If there are no requests submitted for major changes at that point, he will go ahead and send the report. He offered the alternative to meet again and have a vote to approve it as a body, but that was not deemed necessary.

Dr. Procopio thanked the members and all who had worked very hard to develop proposals and provide information to the panel.

V. DISCUSSION OF FUTURE MEETINGS, SCHEDULE, AND TOPICS FOR CONSIDERATION

Dr. Procopio suggested that, with the anticipated pace of the upcoming legislative session, the FRP recess until after the session is over. Mr. Birdwell made the motion; second by Mayor Roach. The motion passed without objection.

VI. OTHER BUSINESS

There was no other business.

VII. ADJOURNMENT

With no further business, Dr. Procopio asked for a motion to adjourn. Mr. Birdwell motioned; second by Mayor Lewis. The motion passed without objection, and the meeting was adjourned at 11:09 AM.

Respectfully submitted,

Dr. Steven T. Procopio, designee of Commissioner Paul W. Rainwater

Date Approved by the Panel: ____________________________________

Funding Review Panel
Potential Items for Review
February 17, 2012

1. MERS Bills (see attached)

    a. Senate Bill 7

    b. Senate Bill 9

    c. Senate Bill 15

    d. Senate Bill 49

2. Previous Proposals (see attached)

    a. LMA proposal

    b. Proposal to extend DROP

    See previous materials – system responses to the panel's proposals:

    c. FRS response to panel's proposals and accompanying actuary's study on LMA proposal

    d. MPERS – actuary's study on LMA proposal

SLS 12RS-145 **ORIGINAL**

Regular Session, 2012

SENATE BILL NO. 7

BY SENATOR GUILLORY

MUNICIPAL EMPLOYEE RET. Provides for a 60 month final compensation for all active employees. (7/1/12)

AN ACT

To amend and reenact R.S. 11:1732(15) and 1763(J)(1), (2), and (3), relative to the Municipal Employees' Retirement System; to provide for final average compensation; to provide for calculation of additional benefits following participation in the Deferred Retirement Option Plan; to provide for transitional provisions; to provide an effective date; and to provide for related matters.

Notice of intention to introduce this Act has been published.

Be it enacted by the Legislature of Louisiana:

Section 1. R.S. 11:1732(15) and 1763(J)(1), (2), and (3) are hereby amended and reenacted to read as follows:

§1732. Definitions

The following words and phrases, as used in this Chapter, unless a different meaning is plainly required by the context, shall have the following meaning:

* * *

(15)~~(a)~~ "Final compensation"~~, for a member whose first employment making him eligible for membership in the system began on or before June 30, 2006, means the average monthly earnings during the highest thirty-six consecutive months or~~

Coding: Words which are ~~struck through~~ are deletions from existing law; words in **boldface type and underscored** are additions.

~~joined months if service was interrupted. The earnings to be considered for the thirteenth through the twenty-fourth months shall not exceed one hundred fifteen percent of the earnings for the first through the twelfth months. The earnings to be considered for the final twelve months shall not exceed one hundred fifteen percent of the earnings of the thirteenth through the twenty-fourth months.~~

~~(b) "Final compensation", for a member whose first employment making him eligible for membership in the system began on or after July 1, 2006,~~ means the average monthly earnings during the highest sixty consecutive months or joined months if service was interrupted. The earnings to be considered for the thirteenth through the twenty-fourth months shall not exceed one hundred fifteen percent of the earnings for the first through the twelfth months. The earnings to be considered for the twenty-fifth through the thirty-sixth month shall not exceed one hundred fifteen percent of the earnings for the thirteenth through the twenty-fourth month. The earnings to be considered for the thirty-seventh through the forty-eighth month shall not exceed one hundred fifteen percent of the earnings for the twenty-fifth through the thirty-sixth month. The earnings to be considered for the final twelve months shall not exceed one hundred fifteen percent of the earnings of the thirty-seventh through the forty-eighth month.

* * *

§1763. Deferred Retirement Option Plan

* * *

J. If employment is not terminated at the end of the period specified for participation in the plan, payments into the plan fund shall cease and the person shall resume active contributing membership in the system. Payments from the plan fund shall not be made until employment is terminated, nor shall the monthly benefits which were being paid into the plan fund during the period of participation be payable to the person until he terminates employment. Upon termination of employment, the person shall receive a lump sum payment from the plan fund equal to his account in that fund, a true annuity based upon his account in that fund, or any other method of payment approved by the board of trustees. If a person elects to receive a true annuity or other method of payment approved by the board of trustees, funds shall be transferred from the plan fund to the annuity reserve fund to provide for the annuity payments. Also upon termination of employment, the monthly benefits which were being paid into the plan fund shall begin to be paid to the retiree and he shall receive an additional benefit based on his additional service rendered since termination of participation in the fund, using the normal method of computation of benefit, subject to the following:

(1)~~(a)~~ If his ~~first employment making him eligible for membership in the system began on or before June 30, 2006, and his~~ period of additional service is less than ~~thirty-six~~ **the number of months used in the computation of his original benefit** ~~months~~, the average compensation figure used to calculate the additional benefit shall be that used to calculate his original benefit.

~~(b) If his first employment making him eligible for membership in the system began on or after July 1, 2006, and his period of additional service is less than sixty months, the average compensation figure used to calculate the additional benefit shall be that used to calculate his original benefit.~~

(2)(a) If his first employment making him eligible for membership in the system began on or before June 30, 2006, and his period of additional service is thirty-six months or more, the average compensation figure used to calculate the additional benefit shall be based on his compensation during the period of additional service.

~~(b)~~ If his ~~first employment making him eligible for membership in the system began on or after July 1, 2006, and his~~ period of additional service is ~~sixty or~~ **equal to or** more **than the number of** months **used in the computation of his original benefit**, the average compensation figure used to calculate the additional benefit shall be based on his compensation during the period of additional service.

(3) In no event shall the additional benefit exceed an amount which, when combined with the original benefit, equals one hundred percent of the **monthly**

~~average~~ **final** compensation figure used to compute the additional benefit.

* * *

Section 2. This Act shall be implemented according to the provisions of this Section.

(A) For transitional purposes, the provisions of R.S. 11:1732(15) shall be phased in as follows:

(1) For members retiring or entering the Deferred Retirement Option Plan before January 1, 2013, and whose first employment making them eligible for membership in the system began on or before June 30, 2006, the provisions of R.S. 11:1732(15) shall apply as they existed before the effective date of this Act.

(2) For those members retiring or entering the Deferred Retirement Option Plan on or after January 1, 2013, and on or before December 31, 2014, and whose first employment making them eligible for membership in the system began on or before June 30, 2006, the period used to calculate monthly average final compensation shall be thirty-six months plus the number of whole months since January 1, 2013.

(B) Notwithstanding any other provision of this Section to the contrary, the monthly final compensation expressed in dollars used to compute a member's benefit after the effective date of this Act shall not be less than the dollar amount of the average monthly earnings during the member's highest thirty-six consecutive months or joined months of service earned for employment before January 1, 2013.

Section 3. This Act shall become effective July 1, 2012; if vetoed by the governor and subsequently approved by the legislature, this Act shall become effective on July 1, 2012, or on the day following such approval by the legislature, whichever is later.

The original instrument and the following digest, which constitutes no part of the legislative instrument, were prepared by Laura Gail Sullivan.

DIGEST

Present law relative to Municipal Employees, provides that the monthly final compensation used to calculate benefits for persons hired on or before June 30, 2006, shall be based on the highest 36 consecutive months of pay. For persons hired on or after July 1, 2006, the period shall be 60 months.

Proposed law repeals present law and provides that the final compensation for all members shall be 60 months.

Present law provides that a participant in the Deferred Retirement Option Plan (DROP) who continues in employment after plan participation shall receive an additional benefit based on the additional service rendered.

Proposed law retains present law.

Present law specifies that for a DROP participant if his first employment making him eligible for membership in the system began on or before June 30, 2006, and the period of additional service is less than 36 months, the additional benefit shall be calculated using the final compensation figure used to calculate the original benefit. Further provides that if his first employment making him eligible for membership in the system began on or before June 30, 2006, and the period of additional service is 36 months or more, the additional benefit shall be calculated using compensation during the period of additional service.

Present law provides that if his first employment making him eligible for membership in the system began on or after July 1, 2006, and the period of additional service is 60 months or more, the additional benefit shall be calculated using the average compensation figure during the period of additional service. Provides that if his first employment making him eligible for membership in the system began on or after July 1, 2006, and the period of additional service is 60 months or more, the additional benefit shall be calculated using the average compensation figure during the period of additional service.

Proposed law requires at least 60 months of additional service to be rendered by all members before the additional benefit is calculated using the monthly average final compensation for the additional period of service.

Transitional Provisions

Proposed law provides transitional provisions from present law to proposed law for certain members. Provides that for members retiring or entering DROP before Jan, 1, 2013, present law applies and for members retiring or entering DROP on or after Jan. 1, 2013, and on or before Dec. 31, 2014, the period used to calculate monthly average final compensation shall be 36 months plus the number of whole months since Jan. 1, 2013. Further provides that the final compensation period used to compute post-DROP additional benefit shall be equal to the number of months utilized in computing the benefit upon entry into DROP.

Effective July 1, 2012.

(Amends R.S. 11:1732(15) and 1763(J)(1), (2), and (3))

SLS 12RS-147 **ORIGINAL**

Regular Session, 2012

SENATE BILL NO. 9

BY SENATOR GUILLORY

MUNICIPAL EMPLOYEE RET. Provides relative to employee contributions. (7/1/12)

AN ACT

To amend and reenact R.S. 11:62(7), 1786, and 1806, relative to the Municipal Employees' Retirement System; to provide for ranges for employee contributions; to provide for board authority to set the employee contributions for Plan A and Plan B within the ranges for each fiscal year; to provide for an effective date; and to provide for related matters.

Notice of intention to introduce this Act has been published.

Be it enacted by the Legislature of Louisiana:

Section 1. R.S. 11:62(7), 1786, and 1806 are hereby amended and reenacted to read as follows:

§62. Employee contribution rates established

Employee contributions to state and statewide public retirement systems shall be paid at the following rates, except as otherwise provided by law:

* * *

(7) Municipal Employees' Retirement System of Louisiana~~.~~**:**

(a) Plan A - ~~9.25%.~~ **Not less than 8% nor more than 10% as determined by the board of trustees.**

Coding: Words which are ~~struck through~~ are deletions from existing law; words in **boldface type and underscored** are additions.

(b) Plan B - ~~5%~~ **Not less than 4% nor more than 6% as determined by the board of trustees**.

* * *

§1786. Employee contributions

Each member of Plan A shall contribute an amount equal to ~~9.25%~~ **a percentage** of his monthly earnings from each and every payment of earnings, which contributions shall be credited to annuity savings fund A**, and which percentage shall be set by the board for each fiscal year within a range from eight percent to ten percent and shall become effective as of the next payroll period reportable on the employee's W-2 for that calendar year**.

* * *

§1806. Employee contributions

Each member of Plan B shall contribute an amount equal to ~~five percent~~ **a percentage** of his monthly earnings from each and every payment of earnings, which contributions shall be credited to the Annuity Savings Fund B**, and which percentage shall be set by the board for each fiscal year in a range from four percent to six percent and shall become effective as of the next payroll period reportable on the employee's W-2 for that year**.

Section 2. This Act shall become effective on July 1, 2012; if vetoed by the governor and subsequently approved by the legislature, this Act shall become effective on July 1, 2012, or on the day following such approval by the legislature, whichever is later.

The original instrument and the following digest, which constitutes no part of the legislative instrument, were prepared by Laura Gail Sullivan.

DIGEST

Present law relative to the Municipal Employees' Retirement System provides for employee contributions of 9.25% for Plan A members and 5% for Plan B members.

Proposed law provides a range of employee contributions of 8% to 10% for Plan A and 4% to 6% for Plan B. Provides that each year's employee rate shall be determined by the board of trustees for the system.

Effective July 1, 2012.

(Amends R.S. 11:62(7), 1786, and 1806)

SLS 12RS-143 **ORIGINAL**

Regular Session, 2012

SENATE BILL NO. 15

BY SENATOR GUILLORY

MUNICIPAL EMPLOYEE RET. Provides for benefit accruals for elected officials. (7/1/12)

AN ACT

To amend and reenact R.S. 11:1782(1) and (3) and 1802(1) and (3), relative to the Municipal Employees' Retirement System; to provide for computation of normal retirement allowances of certain elected officials; to provide for an effective date; and to provide for related matters.

Notice of intention to introduce this Act has been published.

Be it enacted by the Legislature of Louisiana:

Section 1. R.S. 11:1782(1) and (3) and 1802(1) and (3) are hereby amended and reenacted to read as follows:

§1782. Computation of normal retirement allowances; return of accumulated contributions

The monthly amount of the retirement allowance for any member of Plan A shall consist of an amount equal to three percent of the member's final compensation multiplied by his years of creditable service, provided however, that:

(1) Any member who **<u>is eligible to retire as of January 1, 2013, who</u>** has held an elective office in a municipality which is a participating employer shall be paid an additional annuity equal to one-half of one percent for each year of such

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elective service **<u>prior to January 1, 2013. The member shall not be entitled to an additional annuity for any year of elective service after January 1, 2013</u>**.

* * *

(3) Any city marshal or deputy city marshal, excluding those members serving as city marshals and deputy city marshals of Bossier City or Ruston on June 30, 2003, shall receive an additional regular retirement benefit computed as follows: the monthly average of the seventy-two highest consecutive or joined months of supplemental marshals' earnings on which contributions were paid to the retirement system multiplied by the number of years contributions were paid to the retirement system on supplemental marshals' earnings multiplied by three percent for all service as a city marshal or deputy city marshal, plus one-half of one percent for all elected service as a city marshal. Should the period for which contributions are paid to the retirement system for supplemental marshals' earnings be less than seventy-two months, then the actual period on which contributions were paid shall be used to determine average supplemental marshals' earnings used to compute this benefit. **<u>However, the additional one-half of one percent for all elected service as a city marshal shall not accrue to anyone's benefit on or after January 1, 2013.</u>**

* * *

§1802. Computation of normal retirement allowance

The monthly amount of the retirement allowance for any member of Plan B shall consist of an amount equal to two percent of the member's final compensation multiplied by his years of creditable service, provided that:

(1) Any member who **<u>is eligible to retire as of January 1, 2013, who</u>** has held an elective office in a municipality which is a participating employer shall be paid an additional annuity equal to one-half of one percent for each year of such elective service **<u>prior to January 1, 2013. The member shall not be entitled to an additional annuity for any year of elective service after January 1, 2013</u>**; and

* * *

(3) Any city marshal or deputy city marshal, excluding those members

serving as city marshals and deputy city marshals of Bossier City or Ruston on June 30, 2003, shall receive an additional regular retirement benefit computed as follows: the monthly average of the seventy-two highest consecutive or joined months of supplemental marshals' earnings on which contributions were paid to the retirement system multiplied by the number of years contributions were paid to the retirement system on supplemental marshals' earnings multiplied by two percent for all service as a city marshal or deputy city marshal, plus one-half of one percent for all elected service as a city marshal. Should the period over which contributions are paid to the retirement system on supplemental marshals' earnings be less than seventy-two months, then the actual period for which contributions were paid shall be used to determine average supplemental marshals' earnings used to compute this benefit. **However, the additional one-half of one percent for all elected service as a city marshal shall not accrue to anyone's benefit on or after January 1, 2013.**

Section 3. This Act shall become effective on July 1, 2012; if vetoed by the governor and subsequently approved by the legislature, this Act shall become effective on July 1, 2012, or on the day following such approval by the legislature, whichever is later.

The original instrument and the following digest, which constitutes no part of the legislative instrument, were prepared by Laura Gail Sullivan.

DIGEST

Present law provides generally that members of the Municipal Employees' Retirement System (MERS) shall, for each year of service as a non-elected public servant, receive a monthly retirement allowance equal to:

Plan A: 3% x final compensation x years of service.
Plan B: 2% x final compensation x years of service.

Present law provides that members of Plan A or B who have held elective office shall receive a monthly allowance equal to:

Plan A: 3.5% x final compensation x years of elected service.
Plan B: 2.5% x final compensation x years of elected service.

Proposed law retains present law for persons eligible to retire on January 1, 2013.

Proposed law eliminates the additional 0.5% accrual for all service credit earned on or after Jan. 1, 2013.

Effective July 1, 2012.

(Amends R.S. 11:1782(1) and (3) and 1802(1) and (3))

1d

SLS 12RS-144 **ORIGINAL**

Regular Session, 2012

SENATE BILL NO. 49

BY SENATOR GUILLORY

MUNICIPAL EMPLOYEE RET. Provides for a second tier of benefits for persons employed on or after 1/1/13. (7/1/12)

AN ACT

To amend and reenact R.S. 11:1763(A) and to enact R.S. 11:1789 through 1789.5 and R.S. 11:1808 through 1808.5, relative to the Municipal Employees' Retirement System; to provide relative to membership, employee contributions, benefit calculation, survivor benefits, disability benefits, and retirement eligibility for future system members; to provide an effective date; and to provide for related matters.

Notice of intention to introduce this Act has been published.

Be it enacted by the Legislature of Louisiana:

Section 1. R.S. 11:2763(A) is hereby amended and reenacted and R.S. 11:1789 through 1789.5 and R.S. 11:1808 through 1808.5 are hereby enacted to read as follows:

§1763. Deferred Retirement Option Plan

A. In lieu of terminating employment and accepting a service retirement allowance pursuant to R.S. 11:1781 and 1782, or R.S. 11:1801 and 1802, **or R.S. 11:1789.3 and 1789.4, or 1808.3 and 1808.4,** any member of Plan A who is eligible for a normal retirement pursuant to R.S. 11:1781 **or 1789.3(A), (B), or (C),** or any member of Plan B who is eligible for a normal retirement pursuant to R.S. 11:1801 **or 1808.3(A), (B), or (C),** may elect to participate in the Deferred Retirement Option

Coding: Words which are ~~struck through~~ are deletions from existing law; words in **boldface type and underscored** are additions.

Plan and defer the receipt of benefits in accordance with the provisions of this Section.

* * *

§1789. Creation; application

There is hereby created a subplan within Plan A of this system for persons who would otherwise be eligible for membership in the Municipal Employees' Retirement System of Louisiana Plan A but whose first employment making them eligible for membership in this system occurred on or after January 1, 2013. Such subplan shall be known as the "MERS Plan A Tier 2". Any other provisions of this Chapter or any other laws to the contrary notwithstanding, the retirement of such persons shall be governed by the provisions of Plan A Tier 2; however, the provisions of this Chapter applicable to Plan A Tier 1 shall apply to members of Tier 2 for any matter on which this Subpart is silent.

§1789.1. Application; definitions

Terms not specifically defined in this Section shall have the meanings provided in R.S. 11:1732 unless a different meaning is clearly required by the context. For purposes of Plan A Tier 2:

(1)"Final compensation" shall mean the average monthly earnings during the highest sixty consecutive months, or joined months if service was interrupted. The earnings to be considered for the thirteenth through the twenty-fourth months shall not exceed one hundred fifteen percent of the earnings for the first through the twelfth months. The earnings to be considered for the twenty-fifth through the thirty-sixth month shall not exceed one hundred fifteen percent of the earnings for the thirteenth through the twenty-fourth month. The earnings to be considered for the thirty-seventh through the forty-eighth month shall not exceed one hundred fifteen percent of the earnings for the twenty-fifth through the thirty-sixth month. The earnings to be considered for the final twelve months shall not exceed one hundred fifteen

percent of the earnings of the thirty-seventh through the forty-eighth month.

(2) "Member" shall include persons who would be eligible for system membership pursuant to R.S. 11:1751 but whose first employment making them eligible for membership in one of the state systems occurred on or after January 1, 2013.

§1789.2. Eligibility for membership

Each person who would be eligible for membership pursuant to R.S. 11:1751 but whose first employment making him eligible for membership in this system occurred on or after January 1, 2013, shall become a member of the MERS Plan A Tier 2 of the system as a condition of employment.

§1789.3. Eligibility for retirement

A member of MERS Plan A Tier 2 shall be eligible for retirement if he has:

A. Seven years or more of service, at age sixty-seven or thereafter.

B. Ten years or more of service, at age sixty-two or thereafter.

C. Thirty years or more of service, at age fifty-five or thereafter.

D. Twenty-five years of service credit at any age, exclusive of military service and unused annual and sick leave. However, any member retiring under this Subsection shall have his benefit, inclusive of military service credit and allowable unused annual and sick leave, actuarially reduced from the earliest age at which he would be entitled to a vested deferred benefit under any provision of this Section, if he had continued in service to that age. A member who elects to retire under the provisions of this Subsection is not eligible to participate in the Deferred Retirement Option Plan.

§1789.4. Computation of normal retirement allowances; return of accumulated contributions

The monthly amount of the retirement allowance for any member of MERS Plan A Tier 2 shall consist of an amount equal to three percent of the member's final compensation multiplied by his years of creditable service. In

addition:

(1) Any city marshal or deputy city marshal, excluding those members serving as city marshals and deputy city marshals of Bossier City or Ruston on June 30, 2003, shall receive an additional regular retirement benefit computed as follows: the monthly average of the seventy-two highest consecutive or joined months of supplemental marshals' earnings on which contributions were paid to the retirement system multiplied by the number of years contributions were paid to the retirement system on supplemental marshals' earnings multiplied by three percent for all service as a city marshal or deputy city marshal. Should the period for which contributions are paid to the retirement system for supplemental marshals' earnings be less than seventy-two months, then the actual period on which contributions were paid shall be used to determine average supplemental marshals' earnings used to compute this benefit.

(2) Should a retired member die without having received in retirement benefits an amount equal to his accumulated contributions standing to his credit at the date of his retirement, and leave no eligible survivors, any balance remaining to his credit shall be paid to his designated beneficiary or, if none, his estate.

§1789.5. Employee contributions

Each member of Plan A Tier 2 shall contribute a percentage of his earnings from each and every payment of earnings, which contributions shall be credited to Annuity Savings Fund A, and which percentage shall be set by the board for each fiscal year within a range from eight percent to ten percent and shall become effective as of the next payroll period reportable on the employee's W-2 for that fiscal year.

* * *

§ 1808. Creation; application

There is hereby created a subplan within the retirement Plan B of this system for persons who would otherwise be eligible for membership in the

Municipal Employees' Retirement System of Louisiana Plan B but whose first employment making him eligible for membership in this system occurred on or after January 1, 2013. Such subplan shall be known as the MERS Plan B Tier 2. Any other provisions of this Chapter or any other laws to the contrary notwithstanding, the retirement of such persons shall be governed by the provisions of Plan B Tier 2; however, the provisions of this Chapter applicable to Plan A Tier 1 shall apply to members of Tier 2 for any matter on which the provisions of Plan B Tier 2 are silent.

§1808.1. Application; definitions

Terms not specifically defined in this Section shall have the meanings provided in R.S. 11:1732 unless a different meaning is clearly required by the context. For purposes of Plan B Tier 2:

(1) "Final compensation" shall mean the average monthly earnings during the highest sixty consecutive months, or joined months if service was interrupted. The earnings to be considered for the thirteenth through the twenty-fourth months shall not exceed one hundred fifteen percent of the earnings for the first through the twelfth months. The earnings to be considered for the twenty-fifth through the thirty-sixth month shall not exceed one hundred fifteen percent of the earnings for the thirteenth through the twenty-fourth month. The earnings to be considered for the thirty-seventh through the forty-eighth month shall not exceed one hundred fifteen percent of the earnings for the twenty-fifth through the thirty-sixth month. The earnings to be considered for the final twelve months shall not exceed one hundred fifteen percent of the earnings of the thirty-seventh through the forty-eighth month.

(2) "Member" shall include persons who would be eligible for system membership pursuant to R.S. 11:1751 but whose first employment making them eligible for membership in this system occurred on or after January 1, 2013.

§1808.2. Eligibility for membership

Each person who would be eligible for system membership pursuant to

Coding: Words which are ~~struck through~~ are deletions from existing law; words in **boldface type and underscored** are additions.

R.S. 11:1751 but whose first employment making him eligible for membership in this system occurred on or after January 1, 2013, shall become a member of the MERS Plan B Tier 2 of the system as a condition of employment.

§1808.3. Eligibility for retirement

Any member of MERS Plan B Tier 2 shall be eligible for retirement if he has:

A. Seven years or more of service, at age sixty-seven or thereafter.

B. Ten years or more of service, at age sixty-two or thereafter.

C. Thirty years or more of service, at age fifty-five or thereafter.

D. Twenty-five years of service credit at any age, exclusive of military service and unused annual and sick leave. However, any member retiring under this Subsection shall have his benefit, inclusive of military service credit and allowable unused annual and sick leave, actuarially reduced from the earliest age at which he would be entitled to a vested deferred benefit under any provision of this Section, if he had continued in service to that age. Any member who retires under this Subsection is not eligible to participate in the Deferred Retirement Option Plan.

§1808.4. Computation of normal retirement allowances; return of accumulated contributions

The monthly amount of the retirement allowance for any member of MERS Plan B Tier 2 shall consist of an amount equal to two percent of the member's final compensation multiplied by his years of creditable service. In addition:

(1) Should a retired member die without having received in retirement benefits an amount equal to his accumulated contributions standing to his credit at the date of his retirement, and leave no eligible survivors, any balance remaining to his credit shall be paid to his designated beneficiary or, if none, his estate.

(2) Any city marshal or deputy city marshal, excluding those members

serving as city marshals and deputy city marshals of Bossier City or Ruston on June 30, 2003, shall receive an additional regular retirement benefit computed as follows: the monthly average of the seventy-two highest consecutive or joined months of supplemental marshals' earnings on which contributions were paid to the retirement system multiplied by the number of years contributions were paid to the retirement system on supplemental marshals' earnings multiplied by two percent for all service as a city marshal or deputy city marshal. Should the period for which contributions are paid to the retirement system for supplemental marshals' earnings be less than seventy-two months, then the actual period on which contributions were paid shall be used to determine average supplemental marshals' earnings used to compute this benefit.

§1808.5. Employee contributions

Each member of MERS Plan B Tier 2 shall contribute an amount equal to a percentage of his earnings from each and every payment of earnings, which contributions shall be credited to Annuity Savings Fund B, and which percentage shall be set by the board for each fiscal year in a range from four percent to six percent and shall become effective as of the next payroll period reportable on the employee's W-2 for that fiscal year.

Section 1. This Act shall become effective on July 1, 2012; if vetoed by the governor and subsequently approved by the legislature, this Act shall become effective on July 1, 2012, or on the day following such approval by the legislature, whichever is later.

The original instrument and the following digest, which constitutes no part of the legislative instrument, were prepared by Laura Gail Sullivan.

DIGEST

Present law provides for the Municipal Employees' Retirement System (MERS). Provides for within MERS for Plan A and Plan B.

Proposed law provides for a second tier of benefits in each plan for persons who become MERS members on or after Jan. 1, 2013.

Effective July 1, 2012.

(Amends R.S. 11:1763(A); adds R.S. 11:1789-1789.5 and R.S. 11:1808-1808.5)

PROPOSED LAW "January 1, 2013

NEW HIRES ONLY **DISCUSSION DRAFT**

Proposed law generally makes changes to the three municipal systems (Municipal Employees, Fire and Police) for new hires. It creates two sub-plans based upon hazardous duty or non-hazardous duty for all three systems.

The suggested changes to the benefit structure would possibly include the following:

1. Employee contribution rate
2. Final average compensation
3. Benefit accrual rates
4. Retirement eligibility

Personnel hired after January 1, 2013 would be placed in either the hazardous or non-hazardous sub-plan in the appropriate system. Determination of eligibility would be based upon the same criteria that the state used in Act No.992. "All personnel employed in positions required to be P.O.S.T.-certified, who have the power to arrest and who hold commissions required for employment" forms the basis for hazardous duty sub-plan. Definition of non-hazardous eligibility for ranking firefighters would be communications, IT, and fire clerks.

<u>Employee Contribution</u>

Hazardous Duty Sub-Plan	9.5%
Non-Hazardous Duty Sub-Plan	8.0%

<u>Average Compensation</u>

Hazardous Duty Sub-Plan	60 month period
Non-Hazardous Duty Sub-Plan	60 month period

<u>Retirement Eligibility</u>

Hazardous Duty Sub-Plan

a. 12 years of service at age 55
b. 25 years of service at any age
c. 20 years of service at any age but subject to an actuarial reduction

Non-Hazardous Sub-Plan

a. 10 years of service at age 60
b. 30 years of service at any age
c. 25 years of service at age 55
d. 20 years of service at any age but subject to an actuarial reduction

Benefit Accrual Rate

Hazardous Duty Sub-Plan	$3\frac{1}{3}$ %
Non-Hazardous Duty Sub-Plan	2.5%

Disability Retirement/Survivor Benefits

Either follow provision of Act 992 or maintain current provisions of the three systems (Open for discussion)

Proposal on Extending DROP

That the three system boards, the Louisiana Municipal Association, and the panel review the feasibility of extending DROP from three years to five years as a cost-saving measure for the municipalities that would also provide savings for the employees.

Sue Israel

From: Steven Stockstill [sstockstill@lafire.brcoxmail.com]
Sent: Tuesday, January 10, 2012 12:18 PM
To: Sue Israel
Cc: Steven Procopio
Subject: RE: Motions from the Funding Review Panel Meeting of 11-15-11

Dr. Procopio: On December 7, 2011, the FRS board of trustees met and conducted a full and fair hearing with respect to the concepts shown below. Please accept the following report with respect to the requested feedback-

- That each of the three retirement system boards review the Louisiana Municipal Association's proposal to create a sub-plan for new hires for each system, which the LMA drafted based on its review of Act 992 of 2010, and for the three systems to present at the FRP's next meeting their evaluation of the impact such a sub-plan would have on their system. (See attachment: LMA Proposal.)

A.(1) The proposed plan should clarify that "firefighters" are not required to be POST certified in order to be considered hazardous duty employees.
(2) The plan lists communications, IT, and fire clerks as non hazardous duty. However, it is important to recognize how the FRS member data base is maintained. There is nothing in a member's master file indicating whether the employee is or is not a hazardous duty employee because, in the past, that has not been a necessary distinction. It would be easy to amend the membership application to certify who is or is not a hazardous duty employee for future employees, but trying to identify current employees' status would be challenging and time consuming. Without that information, the actuary would have to use estimates to conduct a study of the actuarial impact of the proposed new plan.
(3) If FRS uses a survey asking the employers to identify which of its employees are or are not hazardous duty, there may be a difference between the way departments define a hazardous duty position. For example, a large department might say a training officer is non-hazardous because he doesn't respond to fires, but a smaller department (with fewer available firefighters) might require its training officer to respond to fires, especially where a response is an all-alarm fire requiring all employees to respond. That would create a disparity of treatment between employees holding the same civil service position. A statutory definition of non-hazardous duty positions might resolve disparate treatment.
(4) Most employees are initially hired as firefighters. What happens if they are placed in the haz-duty plan at date of hire and then later in their careers are moved into a non-haz position? i.e., training or fire prevention bureau, etc.
(5) It should be explored whether the Workers' Compensation Administration guidelines can assist in determining if a person is a haz-duty employee.
(6) This could possibly affect the FRS disability rate. If a firefighter is injured in such a way that he could continue on the job in an administrative position, but not as a firefighter, then he may be more inclined to take a disability retirement rather than shift into the non-haz subplan.
(7) Two plans may impact personnel availability. Consider an employee with ten or more years in the haz-plan. That employee has accumulated a good amount of knowledge and skill. But a person in that position might not leave the fire line to take a job as chief of training because it would change his pension accrual.
(8) The rules regarding reciprocal recognition of credit would have to mesh where the employee has credit in both the haz-duty and nonhaz-duty plans. Is it meshed on a prorated basis? Can an employee retire from one subplan and be treated as a deferred vested member of the other subplan?
(9) There are questions of whether employers are able to correctly report to FRS when an employee moves from a haz to nonhaz duty position and vice versa. Is it administratively practical and what is the potential for lawsuits against municipalities who fail to properly report such changes.
(10) There will probably not be a sudden realization of savings twelve years after the subplan is implemented. The impact of the new subplan will be gradual. For example, a communications officer that is in FRS now, might not retire for another ten years or more. Then his replacement will be hired into the nonhaz subplan. But, by contrast, the payment of contributions during the years leading to retirement will be lower, thereby providing some interim cost relief.

B. The FRS board asked its actuary (Curran) to conduct an actuarial impact study of the LMA proposal based on a model that assumes 0%, 4%, and 8% of all employees hired after 01/01/13 are non-hazardous duty employees. The actuary will look at employee replacement rates over the recent past and project the features that are similar occurrences. The actuary will determine the immediate savings as though the law became effective 01/01/13. The impact will be shown as it would appear in the June 30, 2013 actuarial valuation. A small savings will probably be shown in that year, but the savings will probably increase over future years.
C. It was observed that the LMA proposal, if used as stated, could result in a reduction of the employee contribution rate. However, it was further observed that the intent of the LMA proposal was not to implement a reduction of the employee contribution rate, but was probably meant to have a rate at least equal to the rate for current employees.

- That the three retirement systems bring any cost-saving ideas to the panel for discussion, to include reviewing and providing feedback on an idea drafted by the Louisiana Fire Chiefs' Association for a cost-reducing affordable benefit. (See attachment: LA Fire Chiefs' Assn.)

A. Consideration should be given to the impact a plan of this nature would have on municipalities whose employees participate in both the Firefighters' Retirement System and federal social security.
B. Consideration should be given to the impact of municipalities that choose to keep the fire chief employed by contract after the chief has retired from FRS.

- That the three system boards, the Louisiana Municipal Association, and the panel review the feasibility of extending DROP from three years to five years as a cost-saving measure for the municipalities that would also provide savings for the employees.

A. It was said by one trustee that, last year, Shreveport experienced a savings of $1/2 million per year in pension contributions as a result of its employees who were participating in DROP. The same trustee said that the salaries of the Hammond firefighters who are participating in DROP is about $410,000 per year. He said that Hammond does not have to pay approximately $100,000 per year in pension contributions on behalf of those members. He said that, if DROP is extended two more years, the municipality would avoid paying proportionately more.
B. The board hereby attaches a study by FRS Actuary Gary Curran dated 11/16/10 of the potential cost/savings resulting from the addition of a 5-year DROP benefit for FRS members who have at least 30 years of service credit prior to DROP entry. The study concluded that: "The results of the study confirm the principle that adopting or changing a DROP feature will often increase costs for certain groups of members and reduce costs for others. The relative size of the groups and magnitude of the changes in costs will determine the ultimate result. With regard to this particular change, the groups reducing costs were almost exactly offset by the groups producing increases."

The FRS actuary committed to present the actuarial valuation study results of the LMA proposal at the upcoming FRS board meeting to be held on January 12, 2012. We will gladly forward the actuarial study to you upon our receipt thereof. Meanwhile, please let me know if you need any additional information or assistance.

Steven S. Stockstill,
FRS Executive Director/General Counsel
01/10/12

From: Sue Israel [mailto:Sue.Israel@LA.GOV] **On Behalf Of** Steven Procopio
Sent: Wednesday, November 16, 2011 10:15 AM
To: 'sstockstill@lafire.brcoxmail.com'; 'Bourque, Kathy (LAMPERS)'; 'brust@mersla.com'; 'Tom Ed Mchugh'
Subject: Motions from the Funding Review Panel Meeting of 11-15-11

At yesterday's Funding Review Panel meeting, the following three motions were made and approved by the panel requesting review and feedback by the three retirement system boards and the LMA:

- That each of the three retirement system boards review the Louisiana Municipal Association's proposal to create a sub-plan for new hires for each system, which the LMA drafted based on its review of Act 992 of 2010, and for the three systems to present at the FRP's next meeting their evaluation of the impact such a sub-plan would have on their system. (See attachment: LMA Proposal.)

- That the three retirement systems bring any cost-saving ideas to the panel for discussion, to include reviewing and providing feedback on an idea drafted by the Louisiana Fire Chiefs' Association for a cost-reducing affordable benefit. (See attachment: LA Fire Chiefs' Assn.)

- That the three system boards, the Louisiana Municipal Association, and the panel review the feasibility of extending DROP from three years to five years as a cost-saving measure for the municipalities that would also provide savings for the employees.

The panel respectfully requests that you present these motions to your board at the earliest opportunity and that you report back to me when you are prepared to provide feedback to the panel so that we may schedule a meeting in January to discuss your evaluations. Your assistance with and consideration of these matters are greatly appreciated. If you have any questions, please feel free to contact me.

Steven T. Procopio, Ph.D., Chairman
Funding Review Panel
(225) 342-7149
steven.procopio@la.gov

G. S. CURRAN & COMPANY, LTD.

Actuarial Services

10555 N. Glenstone Place • Baton Rouge, Louisiana 70810 • (225) 769-4825

Gary S. Curran, FCA, MAAA, ASA, EA
Consulting Actuary

Gregory M. Curran, FCA, MAAA, ASA, EA
Consulting Actuary

January 13, 2012

Mr. Steven Procopio
Office of the Division of Administration
Claiborne Building
1201 North 3rd Street, Suite 7235
Baton Rouge, Louisiana 70802

Dear Mr. Procopio:

Pursuant to discussion at yesterday's meeting of the Board of Trustees of the Firefighters' Retirement System, we are forwarding a copy of a letter related to our analysis of some potential changes to the benefits structure of the System. The letter, dated January 11, 2012, was drafted in response to discussions of the Funding Review Panel, and a proposal from the Louisiana Municipal Association.

If you have any questions or require additional information, please feel free to contact our office at (225) 769-4825.

Sincerely,

Lorin O'Neal

Lorin O'Neal

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Gary S. Curran, FCA, MAAA, ASA, EA
Consulting Actuary

Gregory M. Curran, FCA, MAAA, ASA, EA
Consulting Actuary

January 11, 2012

Board of Trustees
Firefighters' Retirement System
P.O. Box 94095
Baton Rouge, Louisiana 70804

Gentlemen:

Pursuant to your request, we have completed our analysis of the LMA proposal to restructure benefits for new hires in the Firefighters' Retirement System. This restructuring was composed of two separate plans for "hazardous duty" and "non-hazardous duty" employees. The provisions of the plan upon which we based our analysis are as follows:

<u>Hazardous Duty</u>

Employee Contribution Rate:	9.5%
Final Average Compensation Period:	5 years
Retirement Eligibility:	12 years of service and age 55 25 years of service regardless of age 20 years of service regardless of age (actuarially reduced)
Benefit Accrual Rate:	3 1/3%
All Other Provisions:	Same as existing plan

<u>Non-Hazardous Duty</u>

Employee Contribution Rate:	8.0%
Final Average Compensation Period:	5 years
Retirement Eligibility:	10 years of service and age 60 25 years of service and age 55 30 years of service regardless of age 20 years of service regardless of age (actuarially reduced)
Benefit Accrual Rate:	2.5%
All Other Provisions:	Same as existing plan

In order to determine the reduction in cost arising from the above changes in plan provisions, at your request, three separate calculations were made based on the population mix of hazardous and non-hazardous duty personnel. For the first model population, we assumed all personnel were considered hazardous duty personnel. In this case, the reduction in the employer normal cost accrual rate amounted to 2.22%. For the second case, we assumed 96% hazardous duty personnel and 4% non-hazardous duty personnel; this produced a reduction in the employer normal cost accrual rate of 2.41%. Finally, we assumed a mix of 92% hazardous duty and 8% non-hazardous duty; this produced a cost reduction of 2.6% in the employer normal cost accrual rate.

Please note that all of the above plan provision changes were assumed to be prospective only and applying only to newly hired personnel after some fixed future date. As a result, none of these changes would reduce any of the existing unfunded accrued liability for the System since all such liability was accrued with respect to current employees. In addition, the reduction in the normal cost accrual rate will only apply to newly hired personnel, and only when such personnel completely replace the existing active population can the full level of savings be realized. As new members are hired, the average aggregate cost of the entire group will gradually diminish as replacement occurs. Currently, approximately 25% of the payroll base of the System is attributable to members with less than five years of service. If this relationship remains essentially true in the future, the System could expect to see approximately 25% of the ultimate savings realized in the first five years after adoption of the proposal.

All of our calculations are based on the assumptions given in the June 30, 2011 valuation and the assumption that the demographic distribution of the group will remain substantially similar to the existing group. We have also assumed that the demographic distribution of the non-hazardous and hazardous group will be similar.

If you have any questions related to our analysis, please feel free to call.

Sincerely,

Gary S. Curran, FCA, ASA
Consulting Actuary

G. S. CURRAN & COMPANY, LTD.

Actuarial Services

10555 N. Glenstone Place • Baton Rouge, Louisiana 70810 • (225) 769-4825

Gary S. Curran, FCA, MAAA, ASA, EA
Consulting Actuary

Gregory M. Curran, FCA, MAAA, ASA, EA
Consulting Actuary

2d

January 27, 2012

Board of Trustees
Municipal Police Employees' Retirement System
7722 Office Park Boulevard, Suite 200
Baton Rouge, Louisiana 70809-7601

Gentlemen:

Pursuant to your request, we have completed our analysis of the LMA proposal to restructure benefits for new hires in the Municipal Police Employees' Retirement System. This restructuring was composed of two separate plans for "hazardous duty" and "non-hazardous duty" employees. The provisions of the plan upon which we based our analysis are as follows:

<u>Hazardous Duty</u>

Employee Contribution Rate:	9.5%
Final Average Compensation Period:	5 years
Retirement Eligibility:	12 years of service and age 55 25 years of service regardless of age 20 years of service regardless of age (actuarially reduced)
Benefit Accrual Rate:	3 1/3%
All Other Provisions:	Same as existing plan

<u>Non-Hazardous Duty</u>

Employee Contribution Rate:	8.0%
Final Average Compensation Period:	5 years
Retirement Eligibility:	10 years of service and age 60 25 years of service and age 55 30 years of service regardless of age 20 years of service regardless of age (actuarially reduced)
Benefit Accrual Rate:	2.5%
All Other Provisions:	Same as existing plan

In order to determine the reduction in cost arising from the above changes in plan provisions, this estimate was based on three separate calculations of the population mix of hazardous and non-hazardous duty personnel. For the first model population, we assumed all personnel were considered hazardous duty personnel. In this case, the reduction in the employer normal cost accrual rate amounted to 1.25%. For the second case, we assumed 96% hazardous duty personnel and 4% non-hazardous duty personnel; this produced a reduction in the employer normal cost accrual rate of 1.38%. Finally, we assumed a mix of 92% hazardous duty and 8% non-hazardous duty; this produced a cost reduction of 1.5% in the employer normal cost accrual rate.

Please note that all of the above plan provision changes were assumed to be prospective only and applying only to newly hired personnel after some fixed future date. As a result, none of these changes would reduce any of the existing unfunded accrued liability for the System since all such liability was accrued with respect to current employees. In addition, the reduction in the normal cost accrual rate will only apply to newly hired personnel, and only when such personnel completely replace the existing active population can the full level of savings be realized. As new members are hired, the average aggregate cost of the entire group will gradually diminish as replacement occurs. Currently, approximately 25% of the payroll base of the System is attributable to members with less than four years of service. If this relationship remains essentially true in the future, the System could expect to see approximately 25% of the ultimate savings realized in the first four years after adoption of the proposal.

All of our calculations are based on the assumptions given in the June 30, 2011 valuation and the assumption that the demographic distribution of the group will remain substantially similar to the existing group. We have also assumed that the demographic distribution of the non-hazardous and hazardous group will be similar.

If you have any questions related to our analysis, please feel free to call.

Sincerely,

Gary S. Curran, FCA, ASA
Consulting Actuary

FUNDING REVIEW PANEL

Minutes of Meeting
Monday, January 30, 2012

I. CALL TO ORDER AND ROLL CALL

The meeting was called to order by Dr. Steven Procopio, designee of Commissioner Paul W. Rainwater, at 9:16 AM in House Committee Room 3 of the State Capitol, Baton Rouge, Louisiana. The Secretary called the roll.

ROLL CALL:

Recommendations Committee: voting members

Members Present:
Dr. Steven Procopio, Chair
designee of Commissioner Paul W. Rainwater
Mr. Stacy Birdwell – member of the Firefighters' Retirement System (FRS)
selected by the FRS board of trustees
Mayor J. Lynn Lewis of Delhi
selected by the Louisiana Municipal Association (LMA)
Mayor Randy Roach of Lake Charles
selected by the Louisiana Conference of Mayors (LCM)
Mr. Mike Sands – member of the Municipal Employees' Retirement System (MERS)
selected by the MERS board of trustees
Ms. Rina Thomas
appointed by the Governor

Members Absent:
Cdr. Henry Dean – member of the Municipal Police Employees' Retirement System (MPERS),
selected by the MPERS board of trustees

Advisory Committee: non-voting members

Members Present:
Mr. Charlie Fredieu
selected by the Professional Fire Fighters Association (PFFA)

Senator Elbert Guillory
chairman, Senate Retirement Committee
Mr. Chris Nassif
selected by the International Union of Police (IUPA) from nominations submitted by the Louisiana organizations affiliated with the IUPA
Mr. Dirk Thibodeaux
appointed by the Governor

Members Absent:
Senator Paige Cortez – member of the Senate Retirement Committee
appointed by Senate President John Alario
Representative Kevin Pearson
chairman, House Retirement Committee

Staff Members Present
Ms. Sue Israel – Secretary
Ms. Malerie Cacibauda – Secretary, House Retirement Committee
Mr. Paul Richmond – Manager, Actuarial Services, Office of Legislative Auditor
Mr. Danny Leming – House Sergeant at Arms
Mr. Jaubert Ambeau – Audio-Video Engineer, Speaker's Office

Others Present
Mr. Don Nijoka – Deputy Director, Louisiana Municipal Association
Mr. Steven Stockstill – Executive Director, Firefighters Retirement System
Mr. Bob Rust – Executive Director, Municipal Employees' Retirement System
Ms. Kathy Bourque – Executive Director, Municipal Police Employees' Retirement System
Mr. Gary Curran – Actuary, G.S. Curran and Company, Ltd.

Dr. Procopio welcomed Mr. Mike Sands to the panel. Mr. Sands has been appointed by the MERS board of directors and is replacing Mr. Bob Rust.

Also, Dr. Procopio advised that he had received a request from Cdr. Dean, who could not attend, to have someone take his place on the panel today. With no legislative staff present to give an opinion, Dr. Procopio deferred on that request out of caution.

II. APPROVAL OF MINUTES

Dr. Procopio called for a motion to approve the minutes of the meeting of November 15, 2011. Sen. Guillory motioned; second by Mayor Lewis. The motion passed with no objection.

III. DISCUSSION OF PROPOSALS SENT TO RETIREMENT SYSTEM BOARDS ON NOVEMBER 16, 2011

Dr. Procopio called on the FRS representatives to discuss the response they sent to the panel. Mr. Gary Curran, actuary for FRS (as well as for MERS and MPERS), came forward to explain the analysis he had provided at the request of the FRS board.

Mr. Curran explained that the panel had sent the FRS board a proposal from the LMA to restructure the benefits for new hires and would also divide them into two different groups—hazardous duty and non-hazardous duty—with two different plans. The hazardous duty plan would maintain the same accrual rate as the existing plan, at 3.33% but would change the final average compensation from three years to five years, which is the amount of time over which the retirement benefit is calculated and is also linked to disability and survivor benefits. The proposal also included changing retirement eligibility to 12 years of service at age 55, 25 years of service regardless of age, and 20 years of service regardless of age but actuarially reduced. It also set the employee contribution rate at 9.5%. The existing baseline is 8.0% but can float up as high as 10%.

The proposed non-hazardous plan was to change the final average compensation from three to five years but also to change the benefit accrual rate from 3.33% to 2.5%. Retirement eligibility age would be increased to 10 years of service at age 60, 25 years of service at age 55, 30 years of service regardless of age, and 20 years of service regardless of age (actuarially reduced). To the extent that the 20 years regardless of age benefits are in fact true actuarial reductions, there really is no impact on the cost because they are structured in a way as to make them neutral.

Mr. Curran said they do not have any statistics on file with the plan separating hazardous duty and non-hazardous duty because there has been no reason to separate them before. So they took their cue from the board in terms of trying to make estimates, as they weren't sure how the definitions would flesh out. Thus they assumed three different possibilities: First, at 0 just to benchmark, assuming all the people would be hazardous duty; then at 4% non-hazardous duty; and then 8% non-hazardous duty. The numbers are ratable, meaning they can prorate the numbers to get an answer if need be, with this being one of the few times that would really work. Using these assumptions, they calculated reductions of normal cost accrual rates. There would be no change in unfunded liability for any of these estimates because that is based on the past and would have no impact on amortization. Each new hire would come in with an average normal cost. Each member would actually have a different cost because of their age when they come into the system. But on average you would get a range of cost reductions, starting with 2.22% on the lower end assuming there would be no non-hazardous duty employees, and at 2.6% on the high end assuming as much as 8% of the population would be in the non-hazardous duty plan. That doesn't mean that rates would drop that much overnight if adopted because the population would still have to be replaced over time. Currently, that replacement rate is somewhere along the lines of 25% over a five-year time frame assuming disability, death, retirement, and termination. So you would expect to see about a 25% reduction in rate after five years, but maybe a little bit less because of the difference in salary. It would take a while for any of these changes to have a big impact on the bottom line.

In concluding his overview, Mr. Curran explained that the two important elements to mention are the normal cost and the unfunded liability. The normal cost of the plan for the current fiscal year is about $48 million. The unfunded liability would be about $38 million. This proposal would affect the $48 million/normal cost and not the $38 million unfunded liability.

Mayor Roach arrived.

Dr. Procopio said it seemed that the three sources of potential savings the systems were asked to look at were: the change in the final average compensation, the change in the eligibility requirements, and then also to the extent that it was modeled on a hazardous versus non-hazardous mix, which seemed to be the smallest part. Mr. Curran agreed, if it was assumed that the large part of the population would be in the hazardous duty category.

Mr. Nassif arrived.

Dr. Procopio appointed Mr. Nassif as a voting member in place of the absent Cdr. Dean.

Mr. Steven Stockstill, executive director of FRS, came forward to discuss the other information sent by the FRS board in response to the panel's request. He explained that the FRS board outlined a series of observations set out in an email to the panel dated 1/10/2012. He said the board had a full and fair hearing on the proposals submitted by the panel, along with a rather lengthy discussion regarding the LMA proposal, and he would review all point by point. He wanted to first point out that the board's observations were not necessarily made in the spirit of either proponent or opponent of the proposal because the board did not vote on acceptance or any other actions but simply went through an analysis. Also, Mr. Stockstill said he reviewed the proposal for legality or illegality, and he found it to be constitutionally viable.

First, the board observed that the proposed plan should clarify that "firefighters" are not required to be POST certified in order to be considered hazardous duty employees, if the proposal were to advance. He asked Mr. Nassif to explain what POST certified means (Police Officers Standard Training). Mr. Nassif said he knew that in Alexandria the firefighters who are arson investigators attend the police academy and are POST certified so they can do their own warrants when they investigate and effect arrests in cases of arson and criminal acts of fire.

Mr. Stockstill said the FRS board next observed that the LMA plan lists communications, IT, and fire clerks as non-hazardous duty. However, the FRS member database does not contain any information in a member's master file indicating whether the employee is hazardous or non-hazardous duty because this has not been a necessary distinction for them up to this point. In order to distinguish what position and whether the members should be hazardous or non-hazardous duty would require a survey of the employers, which they did not believe could be completed in time to be useful to Senator Guillory and Rep. Pearson in committee meetings and other preparations for the upcoming legislative session. Without that information, the actuary would have to use estimates to conduct his analysis of the actuarial impact of the proposed new plan. With that in mind, the FRS board asked Mr. Curran to conduct his actuarial impact study of the LMA proposal based on a model that assumes 0%, 4%, and 8% of all new hires would be non-hazardous duty employees.

Next, Mr. Stockstill explained that if FRS uses a survey asking employers to identify which of their employees are or are not hazardous duty, there may be differences in the ways departments define a hazardous duty position. For example, a large department might say a training officer is non-hazardous because he doesn't respond to fires, but a smaller department (with fewer available firefighters) might require its training officer to respond to fires, especially where a response is an all-alarm fire requiring all employees to respond. That would create a disparity of treatment between employees holding the same civil service position. A statutory definition of non-hazardous duty positions might resolve disparate treatment.

Another board observation was that most employees are initially hired as firefighters, making them hazardous duty employees, at least initially. The board felt there should be a provision in place for handling of hazardous duty employees who later move into non-hazardous positions later in their career (i.e., training or fire prevention bureau, etc.). Mr. Stockstill stated that these points, although only illustrated on paper right now, are the real issues that would arise and have to be addressed if this type of legislation were to move forward.

Mayor Roach said he thought that he and the other panel members realized that there would be administrative challenges if this type of change were adopted and asked Mr. Stockstill to point out any issues he would consider to be major obstacles as he explained the FRS board's observations. Mr. Stockstill said there are a few that he considered major and would point those out as he presented those points.

Mr. Stockstill said the FRS board felt it should be explored whether the Workers' Compensation Administration guidelines can assist in determining if a person is a hazardous-duty employee.

Next, Mr. Stockstill said, the FRS board also pointed out from a fiscal standpoint that such a plan change could possibly affect the FRS disability rate. If a firefighter is injured in such a way that he could continue on the job in an administrative position, but not as a firefighter, then he may be more inclined to take a disability retirement and secure the benefit attributable to that type of retirement as compared to going into the non-hazardous portion of the plan. The disability benefit rate has not been a driving cost in the plan, but that could change.

He said it is also possible that the division into two plans may impact personnel availability. Consider an employee with ten or more years in the hazardous plan. That employee has accumulated a good amount of knowledge and skill. But a person in that position might not leave the fire line to take a job as chief of training because it would shift him into non-hazardous duty and change his pension accrual.

One of the significant challenges is found in the rules regarding reciprocal recognition of credit that would have to mesh where the employee has credit in both the hazardous duty and non-hazardous duty plans. Questions that came to mind: Is it meshed on a prorated basis? Can an employee retire from one subplan and be treated as a deferred vested member of the other subplan?

Mr. Stockstill said another significant challenge, one that is currently a pervasive problem for them, in that FRS is involved in a statewide class-action lawsuit dealing with earned compensation about how employers report what is earned compensation for retirement purposes. There are questions of whether employers are able to correctly report when an employee moves from a hazardous to non-hazardous duty position and vice versa. They question whether it is administratively practical and what the potential is for lawsuits against municipalities that fail to properly report such changes.

Next, regarding realization of savings, the board made the observation that there will probably not be a sudden realization of savings 12 years after the sub-plan is implemented, as might be expected. The impact of the new sub-plan will be gradual. For example, a communications officer that is in FRS now might not retire for another 10 years or more. Then his replacement will be hired into the non-hazardous sub-plan. But, by contrast, the payment of contributions during the years leading to retirement will be lower, thereby providing some interim cost relief. This is something that would have to be analyzed very carefully by an actuary in producing a fiscal note.

Finally, Mr. Stockstill said, it was also observed that the LMA proposal, if used as stated, could result in a reduction of the employee contribution rate. However, it was further observed that while this was probably not the intent, it would probably need to be addressed in any legislation.

Mayor Roach said the panel had also asked for the system boards to provide any suggestions that would produce cost savings, particularly immediate savings, and asked if the FRS board had provided any suggestions. Mr. Stockstill stated that they had not had adequate time to discuss those ideas.

Mr. Fredieu said that it is not always the case that members of the firefighters plan are always working either hazardous or non-hazardous duty. For example, in Shreveport he knows there are some who work in training and also are needed to fight fires from time to time. He also wanted to point out that the LMA proposal was based on changes made to a state retirement system, and FRS doesn't really fit that mold. He said they needed to base decisions on their own system and not necessarily on a state system.

Mr. Stockstill said he understood Mr. Fredieu's point, which reminded him of a point he had forgotten to make before. And that was when trying to distinguish if a training officer is hazardous duty or not, as Mr. Fredieu pointed out, it was concluded by the FRS board, at the time and in that context, that the best way to approach legislation of this standpoint was the way they had listed certain occupations as hazardous or non-hazardous. If you had that list, then there is no question; it becomes the law. Then it just becomes a matter of legislative philosophy based on the input of professionals such as Mr. Fredieu, Mr. Birdwell, and others.

Mr. Birdwell said looking at the actuarial numbers, it appeared that 30 years down the road, when all of your current plan members are gone, with the segregated plans you would be saving 38 hundredths of one percent in the plans, and he questions if it was worth the extra expenses and trouble to even look at doing two different classes.

Dr. Procopio said some work had been done by MERS, and he asked MERS Executive Director Bob Rust to come forward to talk about that.

Mr. Rust said they had been studying this for some time, being cognizant of the costs. They are the only volunteer system in the state and are constantly looking at what is an appropriate benefit and what is an appropriate cost. The benefit committee had recommended to the board, the board had passed, and Sen. Guillory had been instrumental in helping them prepare legislation proposing changes to the benefit structure. There are five bills offered specific to benefits. The first bill (SB 7) is to go from three to five years final average compensation for all *existing* employees. It would phase in the five years over 24 months so no benefit would be taken away from someone retiring today. Mr. Rust said they put in a five-year final average compensation for all new hires about three of four years ago, and it is already having a fairly dramatic impact on the cost structure of the system and reducing the costs.

Another bill they are offering (SB 9) will be to change the employee contribution rate, which is set by statute for employees at 9.25% for Plan A (not integrated with Social Security) and at 5% for Plan B (for those municipalities that chose to continue contributing to Social Security). The board is asking to move those contribution rates from 8% to 10% in Plan A and from 4% to 6% in Plan B and to have those set annually by the board. So the board can see what the cities are contributing and can determine the appropriate rate to be paid by the employees. The idea is that, as it has gotten more and more expensive for the cities, that all the costs should not be borne by the cities and the employees should pay a somewhat higher amount for the benefit as well.

The third bill (SB 49) is to change the benefit structure altogether for new hires hired after January 1, 2013. The structure would provide for retiring with 7 years at age 67, with 10 years at age 62, with 30 years at age 55, and for early retirement that would be actuarially reduced from age 62 with 25 years.

Asked by Mr. Rust, Mr. Curran said in the long run the savings would be about .7% of payroll for Plan A. Because of the funding method used by this plan, they would get those savings in about four years.

Mr. Rust said the last bill that affects cost (SB 15) is to reduce the accrual rate going forward for elected officials in the state (mayors and other officials) that participate in this system, which are greater than for all other employees in the system. They are seeking a reduction from 3.5% to 3.0% for Plan A and from 2.5% to 2.0% for Plan B. The mayors and members on their board felt they should equalize that. This change will not greatly affect costs, but is more of an egalitarian move to try to be fair, but they think it is the prudent thing to do.

He said the last bill they are putting in (SB 8) doesn't affect costs, but they are seeking changes to the statutory make-up of the board.

Dr. Procopio asked if the LMA would like to comment on what had been presented. Mr. Don Nijoka, Deputy Director of the LMA, appeared in place of Mr. Tom Ed McHugh, who is recovering from surgery. Mr. Nijoka said they have not seen the system responses but would like to get copies of those to take back to the office so they can review with their staff. Dr. Procopio said a lot of them revolved around the division to hazardous and non-hazardous. Mr. Nijoka commented that it appears from the announcements made this week that the state is realizing that they have some major problems with funding for their systems as well. He said everyone is in the same boat and they all need to work together for the good of everyone. They're not trying to take anything away from anyone, but they are trying to save the systems.

Dr. Procopio said MPERS had Mr. Curran provide them an analysis as well, which they were not ready to discuss. It's very similar with a lower number overall, which they can provide later. He asked if there were any questions regarding understanding the issues and the discussion.

Mr. Sands said it appears that, on the LMA/FRS proposal, we have a result stated as a reduction in the employee normal cost accrual rate and asked Mr. Curran if there was a result stated as an employer contribution.

Mr. Curran said those numbers were fairly close to each other. The employer cost is composed of two pieces: the normal cost and the amortization payment on the unfunded liability. Because of the way MERS is funded, it would not change the unfunded liability payments. The effect on the employer payment would be very close to that percent as being a percent of payroll. There are some short term issues including some rounding issues, but in the long term that cost should converge to the normal cost accrual rate shift. The final number for employers is required to be rounded to the nearest 1/4%. Mr. Sands asked if the LMA/FRS proposal would look like a 1/2% change over five years, and Mr. Curran answered yes, somewhere in that neighborhood.

At this point, the panel digressed into a discussion of item 4. See below.

Dr. Procopio mentioned that the report to the legislature would be the next point on the agenda after discussion of the proposals was complete. Mayor Roach said he was looking at the legislative agenda and the timeline for filing retirement bills states that they must be filed by Friday, January 27. He asked what would be the timeline to get something introduced at this point. Dr. Procopio said he was not legislative staff, but he was relatively certain the panel could still get something introduced past the filing date.

Dr. Procopio thought the report should include the proposals and discussions that had taken place in the meeting thus far, and he asked if anyone had any concepts for the report they would like to introduce at this point.

Mayor Roach said a report is obviously owed to the legislature, and it needs to summarize the work that has been done thus far. So, if there are no other issues to be discussed in this committee today, he thought that the report should reflect the work that has been done, the recommendation made by the LMA, the responses that had been provided by the FRS and Mr. Curran; and the MERS bills as discussed by Mr. Rust should be summarized as well. At a minimum, he thought the report should contain that information. Based on the legislative calendar, it says that a member may file five additional bills by no later than Monday, April 2 and then be introduced on Tuesday April 3, and that the retirement bill be advertised twice at least 30 days prior to introduction. You would have to advertise by March 2 and do it at least twice. That's something to be considered and provides the opportunity to meet one more time before the deadline. Of course, the panel is getting very close to being able to do anything in this legislative session. In that report, he thinks the panel needs to point out that they did, as a committee, invite each system to make recommendations relative to any other ideas they might have relative to dealing with this problem because the problem is not going to go away. He said they had just learned that the employer contribution for the police is increasing to 31%, and they are getting to the point that they simply cannot afford to continue with cost increases. He said the municipalities had cried wolf long enough, and he thought they may have to ask the mayors to stop being creative and just let the bottom fall out so that people would recognize that this is something that cannot be ignored. He said the taxpayer expects the cities to fix it, and the cities must use their creative abilities to do that, but he is concerned that there hasn't been more constructive progress. He said this is a very real problem for municipalities in this state.

Dr. Procopio said as it stands right now, the panel has no recommendations. The panel can do a summary of what it's done and meet its statutory requirement. Then perhaps the panel can meet next month and continue to discuss potential recommendations. If that's the case, he asked if panel members have things they want to look at and if they want to look for MERS-type recommendations for the other two systems. He said he just wanted to be certain that, if the panel meets again, it can be productive.

Mayor Roach said, while Mr. Rust didn't ask for this, he thought it would be helpful for the panel to review the MERS legislation and hopefully make a favorable recommendation to support it. That would certainly represent a statement as to the proposal and speak well that MERS is coming forward with these suggestions. He said any change in the retirement system is going to be difficult, but we have got to move forward.

Mr. Birdwell asked Mr. Curran to give a total of savings to be derived from all four of the MERS bills.

Mr. Curran explained that there are two different plans. For Plan A, with the cut in the final average cost for existing members, they would expect a decrease in the normal cost of 1.83% immediately following adoption. The other change to new hires only, in about three or four years he would expect to get a cut of about .68% of pay. If you add those two together, you get something along the lines of 2.5% after about four years, most of that being in the first year. For Plan B, the numbers would be significantly less because the benefit structure is less. There would be a 1.06% reduction in Plan B immediately, and then approximately an additional 17/100% within four years after that was added on top.

Mr. Rust said the MERS board didn't ask Mr. Curran to do an analysis of what the increase in the employee contribution rate would be, although that would certainly have an effect on employer cost if the employees were picking up some portion of it. Mr. Curran agreed, stating that when you raise the employee rate, you don't get an exact dollar reduction for the employer rate because of the refund feature, but he thought that number was in the high 80s or the low 90s in terms of the impact it would have. That would have an additional offset if they did decide to increase the employee contribution rate.

Mr. Rust said, if you put them all together, it's a couple of percentage points in the first year or so, but what the MERS board feels is important is that, if you don't start to change things and change the long-term cost structure of the system, you keep going with the same cost structure and never get where you need to be. The long-term benefits are going to be in place. He said if they had done some of these things a couple of years ago, they would be feeling the impact now, which in turn would be helping the cities out now and they would have a more affordable system. He said it's a long trip and this is maybe the first couple of steps, but they think it is well worth doing.

Mr. Curran said it was important to note that something was done a couple of years ago with the new hires accrual rate and change to final average compensation, and they are seeing results even now. With new hire gains, he said they are getting some offset. It's not a huge amount, but it's certainly not insignificant either. The asset experience loss for this year in Plan A was 2.28%, but there was a new hire gain that was more than 3/4% that helped offset that to some extent.

Mr. Fredieu said there wasn't anything anyone could do about the stock market crash of a few years ago, but it seemed to him they need to look at ways to get people to stay in the system longer. He said they can debate on what it costs, but nothing is going to take those losses off the books. The longer you stay in the system, the less it costs the system. He said they had talked before about the 5-year DROP, which he thought would save employees money and save the systems money, and he thought that was worth more discussion.

Mr. Rust said Mr. Fredieu was absolutely correct. He said these retirement plans were put in place for all the right reasons, but with changes in mortality, what we now have are middle-age retirement plans that are expensive. They are paying out benefits over longer periods than people actually work, and that needs to change. He said the board had asked Mr. Curran to provide an analysis on the hiring of a 20-year-old man making $18,000, what his benefit would look like after 30 years of service. The answer was they expected his final average compensation to be about $65,000; he would have put in over $100,000 of his own money into the plan; and he would have a life expectancy at retirement of 31 years. They don't know what the employer contribution would be because that varies from year to year. And based on those numbers, they would expect this man to receive over $2 million in retirement benefit over his life expectancy of 31 years. It's that length of time that they're paying out benefits that's the problem. This is the reason why Social Security is having problems and why many others are having problems also. This is also why they are putting forth a bill to encourage people to work longer. And if they don't work longer, they will still get a benefit, but it will be actuarially reduced so it will be an affordable benefit. The systems are paying out benefits for a very long time, and that is part of the reason for the costs.

Dr. Procopio suggested the panel try to have another meeting fairly quickly in February to further discuss and decide when they would include in the report to the legislature. He envisioned looking at the bills MERS has proposed and vote on them as a panel as to whether they will support them or not, and that would send a message. The panel can also decide if there is anything they want to look at for the other retirement systems, such as final average compensation, retirement eligibility, and accrual rates, which are all part of the LMA plan, and see if they want to make any recommendations there. And if they want to vote to make some recommendations on these things at that meeting and hopefully effect some legislation, that is when it can be done. If there are some other things panel members would like to discuss, that can certainly be done. (Mr. Rust agreed to send copies of the MERS bills for the panel to review.) At that point, the panel will put together a report to the legislature based on what it has done.

(The panel moved back into discussion of item 3.)

Having covered the first of the three proposals the FRP had sent to the three boards, Dr. Procopio asked for feedback on the second proposal, that being that the three systems bring any cost-saving ideas to the panel for discussion, to include reviewing and providing feedback on an idea drafted by the Louisiana Fire Chiefs Association for a cost-reducing, affordable benefit.

Mr. Birdwell asked Mr. Stockstill to confirm that the FRS board had reviewed the LFCA's idea and had approved a motion opposing that proposal. Mr. Stockstill confirmed, stating that the main reason was that there wasn't enough information available on how that would impact departments that also participate in Social Security, among other things.

Mr. Fredieu said he wanted to point out that the idea had not come from the LFCA but had actually come from an individual.

Mr. Rick Tassin, President of the LFCA, came forward to explain that the information he had presented to the panel at its last meeting and requested that they review was his own idea and had not come from the LFCA. He had come up with the idea on his own and presented it to the panel to see if they thought it had merit. He said he would like to sit down with Mr. Stockstill at a later date to discuss.

Mr. Birdwell then spoke about the third proposal the panel sent to the three boards, which was asking the boards to review and explore the feasibility of expanding DROP from 3 to 5 years. He said this idea would also keep members in the system longer, which would result in a stronger system. He used Shreveport as an example. He said they presently have an annual payroll for firefighters currently in DROP of $3,753,576. Taking into account 25% of that payroll, that is $938,394 that the city does not have to pay in pension contributions. Thus, he said it stands to reason that a savings of $1 million per year in pension contributions because of DROP would result in a substantial savings if DROP were extended 2 more years. He said this was probably the most substantial savings to the municipalities of any of the proposals that the panel had been discussing. He added that he understood if you go with eligibility of 25 years of service and 5 years of DROP, it would not work. They currently have 25 years of service with 3 years of DROP, but if it were set at 27 and 5, it would keep employees in the system for an additional 2 years before they would sign up for drop and then keep them for an additional 2 years of DROP, probably extending the majority of members' careers by 4 years by going to a 5-year DROP implemented at 27 years of service. He said he used 27 years as the number because it meant no one could retire earlier than they can now.

Mr. Curran said anything involving a change in the DROP is a complex animal because there are so many alternatives for how members can receive their benefits, and the results are based on a whole host of things that are not really static elements. Things such as how much of a pay raise they will get, how much service they have when they enter DROP, are they entering DROP with the minimum amount of service or are they going past that, what effect this will have on other members, accrual rate (how much of a "give up" for being in DROP). Also to consider is how well people really evaluate their choices. He said they sometimes don't evaluate in their own self-interest because they don't have all the information they need to do so. There is a matrix of things that will get you a high level of uncertainty. He said they could take another look and could certainly design something to keep members in the system longer. Another element is that cost may be somewhat sensitive to economic conditions because members are locked in to their final average compensation upon entering DROP.

Dr. Procopio asked if it is correct that there is a savings when a person is in DROP because there is no employer contribution to the plan on their behalf during that time. Mr. Curran said that is correct, but something to consider is that participation in DROP could be forcing increases to normal cost. That may or may not happen, but you could be forcing up other costs that would offset savings, so there are two pieces to be looked at.

Mr. Fredieu asked Mr. Curran if it is true that members working longer would end up saving the system money. Mr. Curran said, DROP aside, the longer a person works, the cheaper it is to the system. But that is not always true because there are variables such as accrual rate versus how long you work, and a lot of that can depend on the economy and other factors. For example, if you have a plan with a 2% accrual rate and everyone is getting a 2% pay raise every year, it probably is cheaper to keep them around longer. However, if you have a 5% accrual rate with everyone getting 10% pay raises each year, it's probably cheaper to the system to go ahead and retire them. There is a balancing point at which you get to crossover.

Mayor Roach said when DROP was originally proposed, it was supposed to have no cost. However, it's his understanding that this has not always been the case. He asked Mr. Curran to explain a little about that.

Mr. Curran said that any generalization of DROP is very dangerous because there are too many variables. But looking back, when DROP was first introduced to some of the state systems, some cost was expected. However, it turned out that there had been some savings that came because some people had entered DROP at the wrong time, reducing their benefit by as much as 30%, that is, when you compared the value of the benefits they received with what they would have received had they not gone into DROP. That's probably not true for all plans, and it would depend on the provisions of the DROP, on the economy, and on the demography of the group. But you can have a shift in economic conditions that affects the size of pay raises that people are getting, and the results change. He thought the biggest problem with DROP may not be with its cost, but with its uncertainty. and that uncertainty lies not only with the member but also with the employer group. If DROP decisions were made in the best interest of all those who chose to enter, you would expect there to be some cost. But if you have even a few members who make poor decisions or get locked in and later get a promotion or pay raise that can't be figured into their final average compensation, then there certainly can and will be a savings to the system.

Mr. Fredieu asked Mr. Curran to speak specifically to the FRS because all plans can't be lumped together because they are all different. For example, with the FRS, DROP participants are not paid any interest until they actually leave DROP. All the interest on the benefits they are deferring during DROP goes to the system, which is not the case for all systems. And if the system is earning all the interest for five years, that's got to mean a savings for them.

Mr. Curran agreed, adding that any analysis for one plan is not valid for another because of all the different factors he had mentioned before.

Mr. Sands asked Mr. Curran if the DROP proposal had a real, substantial possibility of benefit for the FRS. Mr. Curran said in the version they analyzed a few years ago, they thought it was too close to call in terms of the impact it might have. However, if there were some other dimension to it now, they might want to revisit. Mr. Sands said he thought the FRS should pursue extending the DROP if they wanted to, but he did not see the benefit to the other systems.

Mr. Birdwell reiterated that this was not necessarily something that would produce a savings for the system, but would produce a savings for the municipalities. Last year, they came to an agreement where the employer contribution dropped 2% and the employee contribution increased 2%, which benefited the cities and not the system. What they are looking for is something that would offer additional help to the municipalities, and this DROP extension is something that would do that. He said they currently have 51 people in DROP. That is 51 people who are not drawing their retirement yet, the interest earnings are going to the system, and there are no employer contributions being made for them. This would be an additional two years that those 51 people would not be drawing on their retirement, and the city would not be paying contributions on them nor on the 51 new people that would have been hired to replace them.

Mayor Roach said he appreciated Mr. Birdwell bringing this idea to the panel, appreciated Mr. Fredieu for contributing his comments, and also appreciated the principle in general of trying to keep employees in the system longer to save. He has always had some concerns about DROP because he does not fully understand all the nuances. He also thinks you'd have to be careful not to project savings based on the assumption that people make bad choices, as he thinks you must assume that at some point they will get the right information and will make the right decisions. But he doesn't think you should necessarily discard the idea altogether. There are different systems with different variables, and it seems reasonable to analyze these ideas based on the individuals and not necessarily all. DROP is a benefit for the employee, and if it can be demonstrated that there is no cost to the system, he is open for that, although he doesn't think there is currently enough information to do that. He said when they save money for a community, everyone benefits. The taxpayers benefit and the employees benefit. But if a city finds a savings in some place, it's not something that they simply hoard. There are so many demands and so many needs that the money is spent in providing benefits to the community, which is why this is very important. He is very concerned about the cities' abilities to continue to provide services to their citizens and also provide benefits to their employees, and to bank on an improving economy or a stronger stock market does not seem like the right thing to do. He said we are lucky it hasn't gotten worse, but it will get worse before it gets better. Even small savings add up and make a difference for the bottom line.

IV. DISCUSSION OF REPORT TO BE SENT TO THE LEGISLATURE

Dr. Procopio said the next meeting will be set up as soon as possible, and at that time the panel can discuss the MERS bills, the LMA proposal, and the rest. If anyone has anything else they would like to be brought up at that meeting for discussion, he asked that they let him know within the next week.

Mr. Stockstill requested a motion that the FRS put an item on its agenda to look for cost-saving measures to bring to the panel. Mayor Roach said one of the proposals sent to the boards included a call for the boards to provide suggestions for potential cost-saving measures, and thus he did not think an additional motion was necessary. The panel does want to know what their ideas are and would appreciate hearing from them.

V. DISCUSSION OF FUTURE MEETINGS, SCHEDULE, AND TOPICS FOR CONSIDERATION

Dr. Procopio summarized that another meeting would be held as soon as possible to discuss the issues for the report to the legislature, as previously outlined.

VI. OTHER BUSINESS

There was no other business.

VII. ADJOURNMENT

With no further business, Dr. Procopio asked for a motion to adjourn. Mr. Birdwell motioned; second by Mayor Lewis. The motion passed without objection, and the meeting was adjourned at 11:04 AM.

Respectfully submitted,

Dr. Steven T. Procopio, designee of Commissioner Paul W. Rainwater

Date Approved by the Panel: __________**February 17, 2012**________

BOBBY JINDAL
GOVERNOR

PAUL W. RAINWATER
COMMISSIONER OF ADMINISTRATION

State of Louisiana
Division of Administration
Office of the Commissioner

FUNDING REVIEW PANEL

Minutes of Meeting
Tuesday, November 15, 2011

I. CALL TO ORDER AND ROLL CALL

The meeting was called to order by Dr. Steven Procopio, designee of Commissioner Paul W. Rainwater, at 10:08 AM in House Committee Room 3 of the State Capitol, Baton Rouge, Louisiana. The Secretary called the roll.

ROLL CALL:

Recommendations Committee: voting members
Members Present:
Mr. Stacy Birdwell – member of the Firefighters' Retirement System (FRS)
selected by the FRS board of trustees
Capt. Henry Dean – member of the Municipal Police Employees' Retirement System (MPERS), *selected by the MPERS board of trustees*
Mayor J. Lynn Lewis of Delhi
selected by the Louisiana Municipal Association (LMA)
Dr. Steven Procopio, Chair
designee of Commissioner Paul W. Rainwater
Mayor Randy Roach of Lake Charles
selected by the Louisiana Conference of Mayors (LCM)

Members Absent:
Mr. Bob Rust – member of the Municipal Employees' Retirement System (MERS)
selected by the MERS board of trustees
Ms. Rina Thomas
appointed by the Governor

Advisory Committee: non-voting members

Members Present:
Representative Paige Cortez – member of the House Retirement Committee
appointed by House Speaker Jim Tucker

Senator Butch Gautreaux
chairman, Senate Retirement Committee
Representative Kevin Pearson
chairman, House Retirement Committee

Members Absent:
Senator Elbert Guillory, member of the Senate Retirement Committee
appointed by Senate President Joel Chaisson
Mr. Chris Nassif
selected by the International Union of Police (IUPA) from nominations submitted by the Louisiana organizations affiliated with the IUPA
Mr. Dirk Thibodeaux
appointed by the Governor

Staff Members Present
Ms. Sue Israel – Secretary
Ms. Lauren Bailey – Attorney, Senate Retirement Committee
Ms. Laura Gail Sullivan – Senate Counsel
Mr. Paul Richmond – Manager, Actuarial Services, Office of Legislative Auditor
Mr. Danny Leming – House Sergeant at Arms

Others Present
Mr. Tom Ed McHugh – Executive Director, LA Municipal Association
Ms. Kathy Bourque – Executive Director, Municipal Police Employees' Retirement System
Mr. Gary Curran – Actuary, G.S. Curran and Company, Ltd.

I. APPROVAL OF MINUTES

Dr. Procopio called for a motion to approve the minutes of the meeting of August 30, 2011. Mayor Roach motioned; second by Capt. Dean. The motion passed with no objection.

Next, Dr. Procopio called for a motion to approve the minutes of the meeting of September 30, 2011. Mayor Roach motioned; Capt. Dean seconded. The motion passed with no objection.

II. DISCUSSION OF LMA'S REVIEW OF ACT 992 OF 2010 AND POSSIBLE DEVELOPMENT OF NEW RETIREMENT PLANS FOR NEW HIRES

Dr. Procopio called on Mr. Tom Ed McHugh, Executive Director of the LMA, to come forward to present a proposal drafted by the LMA as a starting point for discussion after reviewing Act 992 of 2010. Dr. Procopio asked everyone to keep in mind that the proposal is intended as a starting point as they listen to the presentation and review the proposal, a copy of which was included in the member packets.

Mr. McHugh referred to a comment that system actuary Gary Curran had made at the last meeting; that is, if changes for new hires had been implemented 10, 12, or 15 years ago, the systems and communities might not be faced with the issues they are facing today. Mr. McHugh said it's also important to recognize that changes made to new hires may not have a huge impact today but may offer some relief in the long run and help get the situation under control. He said they had used Act 992 as a basis because the state had created that legislation as it tried to address some of the same problems. It is their hope that their proposal would next be reviewed by the three systems.

Mr. McHugh asked everyone to remember that their proposal is not suggesting that all new hires go into one sub-plan for all three systems, but rather that there be a subsystem for MERS, another for MPERS, and another for FRS; so the new hires would stay within those systems appropriately, but they would also be under the new qualified guidelines, rules, and regulations. He said they took the same issues that the state had dealt with and put them into their proposal for the new systems. They considered hazardous and non-hazardous positions, as the state had done, and from there they came up with this starting point.

Regarding employee contributions, they are proposing 9.5% for the hazardous duty sub-plan and 8.0% for the non-hazardous duty sub-plan. For both sub-plans they are recommending changing the average compensation from three years to five years. Retirement eligibility for the hazardous duty sub-plan is being proposed at (a) 12 years of service at age 55, (b) 25 years of service at any age, and (c) 20 years of service at any age but subject to an actuarial reduction. For non-hazardous duty, LMA is proposing (a) 10 years of service at any age, (b) 30 years of service at any age, (c) 25 years of service at age 55, and (d) 20 years of service at any age but subject to an actuarial reduction. Benefit accrual is being proposed for hazardous duty at 3⅓% and non-hazardous at 2½%.

For disability retirement/survivor benefits, LMA proposes either following the provisions of Act 992 or maintaining the current provisions of the three systems, but left that point open for discussion as it is a more technical issue that needs more input from those who are more knowledgeable. He added that it was their intent that this proposal be a starting point for discussion and to see if the panel might want to move forward on this or something similar. He asked Mayor Roach for additional comments, as he had been involved in discussions throughout their review process.

Mayor Roach expressed his appreciation to the LMA for the work that they had done and presented to the panel. He emphasized that they are not proposing to create a single system for new employees, but rather a subsystem within each particular statewide system being focused on by the FRP. He said he hoped Mr. Curran would take a look at the proposal on behalf of the systems he represents and provide the panel with some sort of feedback on the impact the proposed changes could have on the systems. He added that they certainly did not want to create more problems in seeking to solve these others, and he understood the systems had concerns about how contributions for the sub-plans would be handled and accounted for. While considering those issues, he said, it's also important to understand the actuarial impact of the changes to the existing systems.

Dr. Procopio referred to the third paragraph of the proposal where hazardous duty criteria were discussed. He said he thought the criterion for P.O.S.T.-certified positions would work for the state systems and for MPERS, but he asked if this would also work for firefighters since they aren't P.O.S.T. certified. Mr. McHugh stated that definitely would.

Senator Gautreaux arrived.

Mayor Roach explained that nonhazardous eligibility for firefighters should include communications, IT, and file clerks; and they recognize that fire line personnel would be in the hazardous classification and that they would have to work out a definition that fit the other categories. Basically, with FRS they would be talking about what is generally referred to as fire line and non-fire line. Hazardous would apply to the guys going out fighting fires; non-hazardous would apply to those who support the system, such as communications, IT, file clerks, and administrative personnel.

Dr. Procopio said it appears to be that a large portion in FRS would be classified as hazardous except for the ones that needed sorting out, and Mr. McHugh agreed. Dr. Procopio then asked about the employee contributions—hazardous at 9.5% and non-hazardous at 8.0%—and pointed out that some systems already contribute more than 8.0%. Mr. McHugh said they had based their proposal on what the state had done in trying to get a starting point. Dr. Procopio suggested that the actuary be asked to look at it and give his feedback because if current employees are paying 10.0%, then he thought new employees should probably be paying at least 10.0%. Mr. McHugh said he had no problem with that.

Dr. Procopio then asked about retirement eligibility. Specifically, if there is a provision for 10 years of service at age 60 for non-hazardous (item a), is there really a need for items b, c, and d? He said he would like to hear from an employee representative because maybe there was a reason for this that he just didn't understand.

Capt. Dean said he thought it was done because it's important for the employees to understand that there is some actuarial reduction as age and years of service change. He said it was his impression that many people don't think reasonably when they retire; they just retire and ask questions later. So it is important for this to be brought to the attention of the employees when they sign their retirement papers.

Dr. Procopio also brought up the need for more in-depth discussion of survivor benefits and disability comparisons across all the systems, as Mr. McHugh had mentioned that is was very complex and different and may be something they should meet on separately.

Rep. Cortez noted that the proposal had the hazardous duty sub-plan's benefit accrual rate listed at 3½%, but he was fairly certain that Act 992 specified 3⅓%. Mr. McHugh verbally corrected this number to 3⅓% and stated he would provide the panel with a corrected version of the proposal.

Mayor Roach said he would like to invite the three systems to review the proposal and bring their responses back to the panel for discussion at its next meeting. He again stated he thought this proposal was a good starting point that could be used as a basis for discussing changes that they would seek getting panel approval for and hopefully move that into the form of legislation for the upcoming session. However, he thought it important that the systems be given the opportunity to respond individually so that each system's concerns could be adequately assessed and addressed.

Dr. Procopio sought to clarify that the motion being presented was not just for the systems' actuary (who fortunately is the same person for all three systems) to report back to the panel, but also for each board of each system to take the proposal up for discussion and come back to the panel and make a presentation. Mayor Roach said he would make that motion; Rep. Pearson seconded.

Mr. Fredieu stated there was more to the systems than just the figures presented in the LMA's proposal, and he asked if survival benefits would also be considered. Mr. McHugh said he hoped that would be an issue that the boards would take up and make recommendations on.

Mr. Birdwell said he thought it very important that the systems provide their feedback to the panel because it would be important to know if the proposed sub-systems would result in additional costs and what impact that might have, for the actuary to report what impact the changes would have on the systems over the long term, and also if the changes might have an impact on their ability to recruit new employees.

Capt. Dean agreed with Mr. Birdwell that it was important to hear the actuarial viewpoint as well as hear back from the system boards because each would bring a different element of concern back to the table. While most new employees aren't that informed about their retirement benefits, he thinks employees with substantial years of service make it a point to learn much more about their benefits. Those with that knowledge might have an impact on recruiting friends and family members as police or firefighters. He also brought up again Mr. Curran's remark at the last meeting about if changes had been made 12 or 15 years ago, the systems and employers would not be facing the challenges they are today. He said that nine people on their board (MPERS) believe that today's challenges could be attributed to the volatility and the crashes in the markets. But he did think it important to review the proposed changes and the impact on recruitment, on long-term impact, on how it should best be accomplished. (e.g., Two systems? Two portfolios? Should funds be comingled?) All these would be interrelated and there would be many questions about if the new plans would be hurting the existing systems. He asked Mr. Curran for input.

Mr. Curran said he thought the fundamental question that must be answered before moving forward is whether or not the benefit structures would also result in segregated trust funds. To date, those systems that have instituted new benefit "tiers" have maintained those within the existing trust funds. He said that made sense to him to the extent that the entities that are participating—the cities and towns—would have probably similar percentages of membership amongst the groups and there will always be some kind of cross subsidy when there is a multi-employer plan. From an administrative standpoint, it would be better to comingle rather than setting up as separate trusts with separate rates. The consolidated rate would be less than the existing rate. If you make something for new hires only, it would be very slow for the effects of the changes to be seen. He said he has made it pretty clear to his clients that they need to look at this issue from a workforce perspective as well as a retirement perspective. Both cost and workforce pieces should be looked at—hiring, retention, and all the things that go along with that. All the pieces should fit together and work together. But he said he suspects that it would make a lot more sense to deal with these as being just tiers within the existing group rather than trying to split out the assets and allocate them. You could end up with a lot of volatility with a new group because it is so small, so it is better to include funds in a larger group. MERS already has a second tier. New hires coming in after 2006 or 2007 have a five-year final average compensation. Many other systems have two- and three-tier plans now that have been co-mingled. He said he wasn't saying that it couldn't be done separately, but off hand he did not see much of an advantage to trying to segregate all the trust funds.

Mayor Roach told Mr. Curran that he hoped it was clear that the LMA was not suggesting or recommending that trust funds be segregated. Mr. Curran said he did understand that. He said the only reason he could think of it making sense to segregate would be if different entities were participating and you wanted to allocate the costs differently to them. Since that wasn't the case here, he did not see it as an advantage or a need to cut the trust funds up into pieces, although it could be done.

Mr. McHugh said he assumed that the state had addressed those questions prior to making the changes they had made and found those issues not to be insurmountable. As he had emphasized in his opening remarks, retirement systems are complex and it takes someone with Mr. Curran's expertise to determine what may be beneficial, and then the board should have the opportunity to look at it and see how the mechanics of it would work. But it was LMA's assumption that if the state had made it work, then hopefully they would be able to take that idea and make it work for locals.

Dr. Procopio summarized the motion under consideration as: to send the LMA proposal to the various boards, including their actuaries, to discuss and return to the Funding Review Panel with their feedback. Mayor Roach made the motion; seconded by Rep. Pearson. The motion passed with no objection.

III. DISCUSSION OF FUTURE MEETINGS, SCHEDULE, AND TOPICS FOR CONSIDERATION

Dr. Procopio said the panel would try to meet in December, although that can be difficult to accomplish around the holidays.

Mr. McHugh said the Louisiana Fire Chiefs Association (LFCA) had given the LMA some information they would like considered, and he would like to present that information to the panel for consideration as a future topic. He provided the LFCA's proposal to the panel members. (See exhibit marked "La. Fire Chiefs' Assn.")

Mayor Roach made a motion to ask the systems to bring to the FRP for discussion any cost-saving ideas they might have regarding potential changes to the systems. Mr. Curran suggested asking the systems to also review and provide feedback on the idea presented by the fire chiefs' association. Mayor Roach agreed to the addition to the motion. The motion was seconded by Mayor Lewis and passed with no objection.

Dr. Procopio stated that he anticipated difficulties scheduling a meeting in December after the boards had had time to meet and prepare their feedback and asked the panel if there were any topics that needed to be discussed in December, but there were none mentioned. He asked if all of the boards of the three systems had received and adopted their FY11 actuarial valuations yet. Mr. Curran advised that they had completed the FRS valuation and expected the MPERS and MERS valuations to be completed by mid-December. That being the case, Dr. Procopio thought the panel should tentatively plan on not meeting in December. However, he planned to definitely call a January meeting during which the panel will hear feedback from the systems and the actuary.

IV. OTHER BUSINESS

Regarding the proposal from the fire chiefs' association, Mr. Birdwell asked if the LMA had reviewed and/or approved of that proposal. Mr. McHugh said the LMA had not approved that proposal, that they were just presenting it to the panel as simply a document that might have some merit that the panel might want to review. Mr. Birdwell had questions about the intent of the fire chiefs' proposal, and Mr. McHugh deferred to a representative of the LFCA to answer.

Chief Merrick Tassin, President of the LFCA, was introduced by Mr. McHugh. He explained that the LFCA proposal evolved from a plan that his department had been looking at for a long time. He said they are in a different situation because they have to pay both Social Security and retirement. What this plan does for them is, once an employee is vested in the system, they can retire and enter the DROP program. They will not be allowed to collect anything from DROP or retirement, and they will continue to be employed for up to five years. During that time, the individual municipalities, fire districts, or agencies can work up their own plans, and they can contribute to Social Security if they choose, which would allow the firefighter, or employee, to get in at least 20 of their quarters. The other option is they could have a plan that's a matching plan. So after the employee is vested and has one year in DROP, the employer could contribute 10% to DROP to match the employees' 10%, or a 10% match to a deferred compensation plan for up to another five years. Essentially, what that would do is allow the employees a secondary retirement. It would also extend the time that the employee is employed by the agency while reducing the span between the time the employee retires and the time he passes away. Thus it benefits the employee and it benefits the system as a whole. He said this was a plan developed within his organization. He has talked to many others about this, many of whom thought it was a very good idea. He said it may have some holes in it that still need to be worked out, but overall he thinks it is something for these systems to consider.

Mr. Birdwell asked if the LFCA had adopted this plan, and Chief Tassin stated no, that this is a new plan that he still has to present to the membership and to a legislative committee. It is an in-house plan that they thought was promising enough to bring to the FRP to look at.

Mr. Birdwell pointed out that once employees enter DROP, there is no contribution from the employer, which saves them money. If the employee opts to leave DROP after one year, when the employer is paying no contribution, and move into Social Security, causing the employer to have to start paying again, it would then change to being a cost to the employer. He said he brought up the idea last year of extending DROP from three to five years, which would save the fire department alone for the City of Shreveport over $1 million. He said he wanted the systems to look again at extending the DROP period and made a motion to that affect.

Chief Tassin pointed out that the municipalities would be able to negotiate their own plan, giving the example that his employer is paying a 23.5% contribution now and would only have to pay 10% for the employees under this plan, which would result in considerable savings.

Mr. Fredieu said to Chief Tassin that, with his employer being locked into paying both Social Security and retirement, he did not think this proposal would be a good option for them. It was his understanding that retirees in these circumstances are able to draw 100% of Social Security and 100% of their retirement with no offset, and he didn't think those retirees would want that changed. Chief Tassin said he wasn't talking about doing away with that, and Mr. Fredieu said it seemed to him that this would impact them.

Mayor Roach told Chief Tassin that he reviewed the proposal when it was initially sent to LMA, and he thought it was very creative and thanked him for submitting it because it's very important to get some independent thought on the issues that the systems and employers are dealing with. He encouraged him to submit more if he has any other ideas.

Rep. Pearson also praised Chief Tassin for submitting his independent, creative thoughts, and he asked Mr. Curran how extending DROP would be advantageous for the cities. He said he could see that it might save money for one city but could ultimately go back to being costly to all of the other cities, and he asked Mr. Curran if extending DROP truly produced savings, or if it results in the same amounts being paid but with different people paying it.

Mr. Curran said that was possible, although he would have to study it further because there are too many issues involved to come up with a simple answer.

Mr. Birdwell said he recalled Mr. Curran saying last year that there would be no measurable savings or cost, but what savings there were would go back to the municipalities and would have no benefit to the retirement systems.

Dr. Procopio clarified Mr. Birdwell's motion, and that is for everybody to look at extending DROP to five years—that is "everybody," meaning the systems, the LMA, and the FRP. The motion was seconded by Capt. Dean and passed with no objection.

V. ADJOURNMENT

With no other business to discuss, the meeting was adjourned at 11:00am.

Respectfully submitted,

Dr. Steven T. Procopio, designee of Commissioner Paul W. Rainwater

Date Approved by the Panel: **January 30, 2012**

BOBBY JINDAL
GOVERNOR

PAUL W. RAINWATER
COMMISSIONER OF ADMINISTRATION

State of Louisiana
Division of Administration
Office of the Commissioner

FUNDING REVIEW PANEL

Minutes of Meeting
Friday, September 30, 2011

I. CALL TO ORDER

The meeting was called to order by Dr. Steven Procopio, designee of Commissioner Paul W. Rainwater, at 9:40 AM in Senate Committee Room A of the State Capitol, Baton Rouge, Louisiana.

II. ROLL CALL

Recommendations Committee: voting members
Members Present:
Capt. Henry Dean – member of the Municipal Police Employees' Retirement System (MPERS), *selected by the MPERS board of trustees*
Dr. Steven Procopio, Chair *designee of Commissioner Paul W. Rainwater*
Mayor Randy Roach of Lake Charles *selected by the Louisiana Conference of Mayors (LCM)*
Mr. Bob Rust – member of the Municipal Employees' Retirement System (MERS) *selected by the MERS board of trustees*
Ms. Rina Thomas *appointed by the Governor*

Members Absent:
Mr. Stacy Birdwell – member of the Firefighters' Retirement System (FRS) *selected by the FRS board of trustees*
Mayor J. Lynn Lewis of Delhi *selected by the Louisiana Municipal Association (LMA)*

Advisory Committee: non-voting members

Members Present:
Senator Elbert Guillory, member of the Senate Retirement Committee *appointed by Senate President Joel Chaisson*

Representative Paige Cortez – member of the House Retirement Committee
appointed by House Speaker Jim Tucker
Mr. Chris Nassif
selected by the International Union of Police (IUPA) from nominations submitted by the Louisiana organizations affiliated with the IUPA
Representative Kevin Pearson
chairman, House Retirement Committee
Mr. Dirk Thibodeaux
appointed by the Governor

Members Absent:
Senator Butch Gautreaux
chairman, Senate Retirement Committee
Mr. Charlie Fredieu
selected by the Professional Fire Fighters Association (PFFA)

Staff Members Present
Ms. Sue Israel – Secretary
Ms. Laura Gail Sullivan – Senate Counsel
Mr. Paul Richmond – Manager, Actuarial Services, Office of Legislative Auditor
Ms. Sylvia McKee – Senate Sergeant at Arms

Others Present
Mr. Steven Stockstill – Executive Director, Firefighters Retirement System
Mr. Tom Ed McHugh – Executive Director, LA Municipal Association
Mr. Gary Curran – Actuary, G.S. Curran and Company, Ltd.

III. INTRODUCTORY COMMENTS

Dr. Procopio appointed Mr. Chris Nassif of the advisory committee to serve at this meeting in the place of the absent Mr. Stacy Birdwell of the recommendations committee; and he appointed Mr. Dirk Thibodeaux of the advisory committee to serve in the place of the absent Mayor Lynn Lewis of the recommendations committee.

Dr. Procopio informed the panel that he had been advised that a Department of Wildlife and Fisheries agent had been shot and killed somewhere in the Felicianas early that morning, although there was still little information on exactly what had occurred. Dr. Procopio asked for everyone to observe a moment of silence for the agent and his family.

IV. ELECTION OF OFFICERS

Dr. Procopio called for nominations for chairman. Mayor Roach nominated Dr. Procopio as chairman; seconded by Capt. Dean. With no other nominations, Dr. Procopio closed the nominations for chairman. With no objections, Dr. Procopio was elected chairman by acclamation.

In response to Dr. Procopio's call for nominations for vice-chairman, Capt. Dean nominated Mayor Roach; seconded by Mr. Rust. With no other nominations, Dr. Procopio closed the nominations. With no objections, Mayor Roach was elected vice-chairman by acclamation.

Rep. Cortez joined the meeting.

V. ECONOMIC OUTLOOK PRESENTATION

Dr. Procopio stated that it was requested at the last meeting that an economic outlook of some sort be presented at this meeting to help everyone understand what the systems and the boards, which are investing bodies, understand what they are facing ahead. In response, Dr. Procopio asked Dr. Dek Terrell, a professor at LSU, to make a presentation to the panel today. Dr. Terrell provided handouts for the panel and utilized the projector for his presentation.

Transcription follows:

Terrell: Ok, I really enjoy giving these kinds of presentations, so I appreciate the invitation to come down and make this presentation.

Dr. Terrell presented several PowerPoint slides (Exhibit A), beginning at approximately the four-minute mark of the recording: http://senate.legis.state.la.us/video/2011/september.htm#30.

Terrell: I was up last night making a few changes to it as I got in to town, so you'll see a couple of things that I mention that I've changed. First thing is in terms of the order of what I want to talk about in the presentation; first thing I want to start with…I had someone on my staff download the consensus forecast for the US. So I want to talk a little about the Livingston Survey Consensus forecast for the US. They're always being updated from time to time, so this was the latest thing that was available on the Philadelphia Fed's web page. I'll talk a little bit about how they're changing from now. The other thing I wanted to … do is go over a quick review of the current economic data. So what does the data look like in the US for now? I also wanted to use that to say a little bit about how we should interpret consensus forecast. So what do these consensus forecasts mean? Where do these consensus forecasts come from? And I think looking at some charts of the data and thinking about long term averages of how things work will give you an idea of a little bit of behind the scenes how economists come up with long term forecasts. And finally looking at the data will give us an idea of trends and implications for the future. And then I'm going to end by cautiously giving you my view of where things are headed.

It's nice to see the consensus forecast because one person's view of things and one person's analysis is always just one person's analysis. So, I'll give you some reasons why I think things are where they are. But I also wanted to give you a good view of what other people think. Before we look at what I think or what anybody else thinks, it's worth looking at a quote that gives you an idea, that's relevant for forecasting. So, a sixth century B.C. poet tells us: "Those who have knowledge don't predict. Those who predict don't have knowledge." So we want to be a little bit cautious about viewing any of these predictions…. "This is a disclaimer that we don't' know what's going to happen in the future. So what I do want to tell you is there's some things we have a pretty good idea about, and some things we have less certainty about. And as we go through some of these Livingston forecasts, I want to tell you a little bit about the uncertainty associated with a forecast as well as the forecasts themselves. Also, if I could predict what the S&P was going be in six months, I probably wouldn't tell you. I'd probably bet on the S&P and be a very wealthy man. I would have to tell some of you to borrow some money to be able to make all of these profits, but other than that….

So, let's take a look at the Livingston Survey results. I can tell you that both the Livingston Survey and one thing I wanted you to see is that the GDP forecast, are tending to hover around 3%. As I look at the graph, when we look at the graphs a little bit later, we're going to see that the long term over about a 50-year period, the average growth rate of GDP on an annual basis; real GDP has grown by 3.1%. What that will tell you is that, if I'm an economist or I'm any kind of forecast, the best thing for me to start with is a forecast that's about what's been done in the past. So 3.1% is kind of a base line of what people would forecast. If you're coming out of a recession and starting to improve you're…. Let me say a little bit more about what a 3% GDP means. A 3% GDP number means that we're sort of at a steady state in the economy. So that means that … only the unemployment rate is stable. It's neither going up nor going down. We're fully utilizing our resources.

If you want the unemployment rate to go down, you're going to need a GDP growth that's a little higher than 3%. So you tend to see coming out of recessions GDP growth rates that are higher than 3%. If you are going into a recession, you've got a GDP growth that's below 3%, you could see unemployment rates that are higher, or unemployment rates that tend to be rising. So that 3% number should be in your mind as a key number that's kind of the historical long-term average of GDP. That's really reflecting two things. It's reflecting population growth of about 1%. You've got to get new workers into the work force.

And the other thing is productivity growth. So every year we get better and getting better and better at producing the things that we produce, and that leads to some GDP growth. So you put, maybe 1% population growth, maybe 2 % generated by productivity growth, and that takes us up to 3%. Nominal GDP, which is including inflation, these numbers started out at about 5%, the forecast tended to be on the high side in the first half of 2011, and they've started to fall. So I would expect when we see new Livingston Survey numbers that they're going to be in the 2% to 2.5% range. The feds forecast has been falling, and the forecast of by Moody's has been falling as well for the latter half of 2011. And that's reflecting the slightly worse performance than anticipated in the second quarter of 2011.

Here are a couple of other forecasts from Livingston. The unemployment rate, I noticed when I was looking over my presentation, is that I pulled the wrong line on that one.. Disregard the Unemployment Rate. All of these other items are just giving you information from the Livingston Survey. Maybe the most important one is the consumer price index. These are all in growth rates, so the consumer price index is projected to grow. There're looking at 2%, one number of 3%. I think most people would revise down to 2% for the 2010-2011 period. The growth rate for the CPI is of course the inflation rate. If you look at the difference between on the previous slide, real GDP and nominal GDP, what you see is that nominal GDP is about 2% higher than real GDP, reflecting that increase in prices. Here, the Livingston survey results with regard to bond yields and stock prices. The forecast was, as of this time that I obtained this data for, at the end of 2012, for an increase in the ten year treasury yields.

One of the things that we've seen recently is that the Fed has been intervening more in long-term treasury. So that's something I want to say a little bit more about later. Long-term survey results, and I'll come back to these, it turns out one of the more interesting things in economics is that, if you ask me, what's going to happen in the short term. I'm going to have a hard time being precise [as to] what's going to happen to GDP, what's going to happen to the stock market over the next year. If you ask me, where we're going to be in 10 years, often I can do a better job of predicting [that]. In particular GDP growth, because we know that over a 50-year period, the average GDP growth has been 3.1%. We're a little bit safer using, applying the long-term growth rates over longer periods of time than we are over shorter periods of time. You do see these periods where we move into recessions, but you tend to see recoveries from those as well.

So the key questions that you are interested in that I think everybody's interested in is: there is a risk of—I don't know if it's really a double dip at this point—but there is a risk of the economy going back into recession. So how big is that risk, to the extent that there is a risk? What are the major risks to our economy, and what are the things that are going to determine where our economy is headed? And what is the long-term outlook for the economy in markets? So, we'll add one more useful quote: "I've seen the future, and it is very much like the present, only longer."

So what we do in terms of our statistical models is we essentially take data and we just extrapolate that out into the future, hopefully, in a somewhat sophisticated way. What we also do mentally is we attempt to go back to times in history that had very similar circumstances and ask the question: Can we use our knowledge of what happened in the past to say something about what's going on now? If we take a look at real GDP, I want to show you three pictures of real GDP.

The first one I think is a little bit hard to interpret. If I presented nominal GDP—I did this in class the other day—it's $14.7 trillion. One of the things that I tell my class is that it's very difficult for me, for any of us, to think what is $14.7 trillion without putting that … We can talk about things as percentage of GDP, we can say that that's $46 thousand per capita. So dividing by population could allow us to interpret GDP as a number. I do want to call your attention to the fact that the general pattern is that over very long periods of time, it's reassuring to see that GDP tends to be rising, but that we do see these dips from time to time. And the most recent recession was particularly severe. If we look at the growth rate in GDP—if I just drew a line through the middle of that graph, that would occur—[that would be] remembered at about 3%, because a long time growth rate in GDP on average has been about 3%, although we've seen a good bit of variation in periods of time.

What we're interested in often, if I'm talking about the short run, we're worried about business cycles; and I've applied something that sounds sophisticated called the Horgrid Prescott Filter to draw that red trend line there. That's just a bit of a complicated way to say that there's some sort of long-term growth rate. There's some sort of long-term rate of GDP that we anticipate, and we anticipate the economy returning to the long-term rate. And in the short term, there will be variations around long-term growth. The factors that determine long term growth are different from the factors that determine short term growth. In the long term growth rate is going to depend on things like how much our economy saves. So the rate of capital accumulation is going to depend crucially on technological advances. So if we make great new discoveries, that's one of the reasons that that red line is always sloping up. So those are the factors that are really driving the long run.

The short- run policy interventions, like government spending, like short-term changes in government policy, like monetary policy, are going to have a pretty big impact on what goes on. Or things like the financial crisis are going to tend to be a short-term blip that pushes us above or below that red line. So we're really concerned about two things: We're concerned about that red long-term trend and then we're concerned about deviation from that long-run trend.

So that's why economists divide things into two components. If we take a look at the unemployment rate here, the unemployment rate gets a lot of press and there's a lot of interest in the unemployment rate because this gives us a measure of how many people in our society are out of work. You'll see the unemployment rate, top ten percent, it's dropped a bit; and again for the unemployment rate to come down further, the growth rate of GDP is going to have to be topping 3%. And as we said before, in terms of forecasts of this unemployment rate in the near future for the next year, there aren't a lot of economists who are predicting GDP growth rates that are very high that would generate that significant improvement in the unemployment rate.

So, my general summary across a lot of economists would be that there's not a projection for significant improvement in the unemployment rate because there's not a projection for enough growth in GDP in the short run. And that's really—again, remember that's talking about this green line and deviation from trend , it's not talking about that red line, which is how we're going to do, how the US is going to do in the long run.

I thought I would put an S&P, as everybody knows the S&P has shown a good bit of volatility in recent periods, so this is just a graph of how the S&P has done. And I guess "volatility" is the word to use for the S&P. Everyone's aware that the feds have been pushing 3-month T-Bill rates close to zero. That's been—this is an area that the Fed has a great deal of control over, and the policy action is to keep interest rates very close to zero. So that's something. The idea in terms of economics would be that there's a trend of between unemployment and inflation and the feds trying to use monetary policy to stimulate the economy as much as possible to generate that higher GDP growth, to push down the unemployment rate.

Again, the potential cost in the long run is a potential for inflation. So that's something right now, we see a low inflation rate, the feds more willing to take that trade off. Ten-year treasuries: This is a rate that the Fed has not intervened in traditionally. The Fed has shown, has made policy statements that they're going to be more willing to intervene at longer horizons now. So that's one issue to be aware of in the economy.

Finally, the inflation rate. Remember the inflation rate peaked. I show this graph to my students. Most of you guys will actually remember back in the 1980s when we had inflation rates toping 10%. The Whip Inflation Now campaign of Gerald Ford, I've been reading books about this. I mention that to my students, and my students have no idea what any of that is about. So the whole concept of inflation for very long periods of time. In fact, over the entire lifetime of many of my students at LSU, inflation has not been a significant issue. It is something you want to keep on the radar screen, particularly in light of how aggressive the Fed has had to be in recent periods.

So what's my view as far where the economy is headed? My view is that the economy is going to be weaker than projected by the Livingston Survey in the short term. I would project lower GDP growth. I think most people are lowering their forecast. I think there's a higher risk of recession, and I think following that, there's a bit of a higher risk of the economy moving into an inflationary period. So I think, to put it simply, as you go around and talk—and as I said early on, I don't want to just give you my view; I want to give you a view of what economists in general think. If you talk to economists around Louisiana, around the nation, one of the things that you'll find is that there is a greater concern about risk of inflation and risk of things out of the ordinary occurring in the economy. So there's a little bit more risk in the economy than normal. That's somewhat reflected in the large movements in the market and so forth.

The other thing that I'm going to project that might surprise you a little bit is, that my projection is that in the long term I see things as strong and maybe stronger than projected by the Livingston Survey. That's tempered a bit by the fact that, if things are weaker, if you take the average of 10 years growth and you have three years near zero and you have seven years near 4% to5%, you're still going to be, you still might be a little below the 3% due to the fact that you had those weak years.

The reason for my optimism about the long run, and the reason that I am always optimistic about the long term of the US, is really driven by—I'll try to find it here—by this thing. When I was in graduate school, I had to apply for an account on a super computer to run a program for 30 days. My dissertation ran for 30 days on a super computer at the University of Illinois. Today it will run on this iPhone. So I have no doubt, I can't tell you what's going to happen ten years from now, 15 years from now, 20 years from now. The innovations that are going to occur are going to be impressive. And some of those things are going to be simple things that make our chemical plants run more efficiently. That makes other manufacturing run more efficiently. Some of the things are going to be obvious things in society.

So one of the things that I do know is that, if I go back and look at that red line, there are technological advances, and they are going to be a key thing that moves our economy future forward; and that's one of the key things that helps to solve some of our long-term crisis that we're really worried about. Like Social Security and like Medicaid—you can't ignore these problems, but you're hopeful that these technological advances and higher growth rate will contribute to helping on that.

So again, I think I wanted to mention the reasons for my particular view before we finish out, and in the short-term part of my concern, and in particular the reason that I would say that there's a higher than normal risk of going back into recession, is due to the fact that there's a lot of uncertainty in the economy and there have been structural changes in the US economy In particular, there's a lot of uncertainty with regard to issues like tax policies, healthcare reform. You can certainly make a case for healthcare reform that, in the sense that it's a good thing to provide healthcare coverage to additional coverage. One of the challenges, though, that it is a major shock to the US economy. So regardless of what position you take on healthcare reform, that healthcare reform in terms of being a major shock to the US economy and in terms of redistributing resources from one part of the economy to the other part of the economy, is likely to be a drain on the growth in the economy.

Banking regulation is also another feature where you can make arguments that there was a need for some banking regulation, you can debate particular parts of the banking regulation, but that's a significant structural change in how things are operating in the economy. And when you make these changes. [they] don't have the effect of improving the economy in the short run. You're trying to work on some sort of long-term issue there; in the short run, just the adaptation to that, the fact that the community bank has to go out and hire an additional person just to maintain the records, they may or may not be able to do that. And you may see a merger of a small bank because they can't operate with that. So these structural changes and the adjustment for those structural changes is a bit of a concern in the short run.

The other thing as far as inflation, and this is just a sense that I had. I went over to the Federal Reserve Bank, and they had a lot of regional economists in their region to give speeches and short presentations like this on the local economy. One of the things that struck me is that their presentation was very strongly saying over and over again that we can, we are confident that we can fully control the money supply, and that we're going to be able to back off when it's time to back off in terms of money supply and control inflation. The fact that they're so strongly saying that to our group just made me a little concerned. And the fact that they were thinking about doing it at that point, and then their forecast that the economy was going to grow, and they were going to have to start pulling back on money supply early on, makes me a little concerned that, when the time comes and the economy starts growing, it may be difficult to control inflation just because of the analysis that you get if you look at the Fed's balance sheet.

And finally, in the long run innovation. What really determines a lot about some of the major problems in our economy, like Social Security and Medicaid, is this innovation. Over a long period of time, you certainly have to be concerned about the short run solvency of programs. But over a long period of time, it's those innovations that are going to be very important to the growth and productivity of our work force, as well as just the math of the number of workers. It is going to be crucial in addressing some of those major problems. And with that, I'd be happy to, if you have time to take any questions.

Procopio: Yes, let's see if the panel members have any questions. And I do have a quick one. So the optimistic [forecast] is that we'll return to our norm, and I'm worried about the example of Japan, that you know their norm has been pretty bad for ten years. Are they different? We don't have to worry about that? Or is there a chance we could slip into a lost decade?

Terrell: I don't see it as likely that we would slip into a lost decade. But the difference between a lost five years and a lost decade is debatable. So I would be hesitant to forecast exactly when you recover because there are policy changes where we really don't know how these policies are going to affect the economy when they actually start to take place. I do think things like healthcare reform is going to have … some positive impacts in that some people are going to be covered by insurance. There are also going to be some impacts when employers are required to provide coverage, and … some employers of large corporations are doing calculations right now and reacting and making plans. Some other employers maybe haven't done the calculations on exactly what they're going to do, and I think when legislation like that takes place, one of the things that we really have to wait and see is how in 2012 things kick in.

Procopio: Representative Pearson.

Pearson: Thank you, Dr. Procopio. Dr. Dek Terrell, really two questions, but the first one is: with technology innovations, with those also come the benefit of increased life expectancies, which I'm trying to understand how that would relate to helping Social Security, and we have similar issues with our pensions.

Terrell: Right, I would say that, in terms of both state pensions and Social Security and all of those programs, every government body is going to have to consider raising retirement ages and accounting for the change in life expectancy. Because if you don't take into account that change in life expectancy, the amount of innovation and just the amount of productivity that you have to get from one young worker to support somebody who is retired for 30 years is going to be a significant problem. So I think that's, when I say that the innovation is going to help solve the problem, that's assuming that government bodies do rational things with regard to addressing life expectancy.

Pearson: Thank you. One other question: I was curious about because … many of our retirement systems are under the actuarial assumptions of a return between 7.5% and 8.25%, portfolios vary, but I mean typically maybe 50% to 60% equity, and 40% in that area… a considerable portion anyway, 25 plus percent and fixed income. Now with inflation coming—I mean, fixed income is paying very little in many cases now—and with inflation coming, I guess I'd just like to hear from you is, there in a portfolio such as that, is there maybe quite a bit of expectation in expecting a return of in the 7.5% to 8.25% rates of return?

Terrell: So you're talking about the nominal return of 7.5% to 8.25%. So the thing that I would worry about is that the portfolio might continue to return, have a similar return. But the inflation rate might go up, and if inflation rate goes up and you're giving workers a cost of living increase or retirees a cost of living increase, then the system has the same return but the amount that you're paying out is going up. So that would be my concern particularly with regard to those…

Pearson: …Social Security, with bonds, with the portfolios, which … most must have, …you gather alternative investments. …Could we see a decade of bond yields with considerably negative returns, due to inflation and then from the current level that they're at now?

Terrell: I think that you could, depending on your portfolio, and you obviously are probably doing some sophisticated things with regard to the duration of the portfolio. But if you had a portfolio with a long duration, you would obviously have a lot of risk to inflation.

Pearson: Thank you so much.

Procopio: Mayor Roach.

Roach: Dr. Terrell, thank you for your presentation, very interesting. [I have] just two questions, actually. I guess everything is relative, but when you made your presentation, you talked short term, then you talked long term, and I guess that depends on the eye of the beholder. But how do you define long term and short term?

Terrell: That's a good question. John Maynard Keynes said that in the long run we're all dead. So I tend to try and do something a little bit different. I would think the short run would be the three- to five-year horizon, and then after, somewhere after three to five years is the long-term horizon. It's interesting, though, that when I took macro economics in the—I guess this is a long time ago, it doesn't seem like a long time ago—in the 80s, we really focused extensively on the short term and Keynes and models. Today when I teach macro economics, we start with the long-term models, and then we go to the short-term models. So there's been a real shift in macro economics as far as what problems we're concerned about; and I think that's somewhat due to the fact that, until recently, … we've had recession, but they've been fairly short in duration and not really severe as far as the decline. So….

Roach: What I have read about this recovery, I've seen a couple of charts here and there, but that the recovery that we're experiencing right now is slower in terms of the rate of recovery than it has historically been, which I guess leads you to the conclusion that it's going to take a little bit longer then it might have taken in the past to get out of this recession. Of course, the recession was deeper than it has been in the past; so again, a lot of ground that we have to cover, and I guess going forward it's going to take a while. And, I don't know, I guess what concerns me in a way, when you say three to five years, is the public's appetite for a three- to five-year recovery without making it worse than it really is—I guess that those remain to be seen. The other thing that I would ask you is, in your presentation I didn't see anything on it, but can you touch on what's going on in Europe and how that could possibly affect what we might experience here within that short-term/long-term analysis?

Terrell: Right, I see what's going on in Europe as primarily a short-term issue, a lot like our financial crisis. I think … there's several reasons that we're experiencing slower recovery. One reason is because of the source of the initial recession was a financial crisis; and I think the federal government, I've said this several times, but when I talk to virtually any economist about the policy action that was probably the best policy action, it was TARP. So on the US side implementing TARP, though some people don't like TARP, was a very positive thing to stabilize our financial system. I think on the European side, as long as they react in a strong way, not necessarily bailing out Greece, but making sure that the French and German banks and the large banks in Europe don't fail, then I think there will be a limited period of one to two years, as some of these countries go through the inevitable problems that they're going to go through. And that is going to be a negative because one of the things you see, even in Louisiana, is that … one of the reasons we weathered the storm a little bit better than some of the other states is the dollar's been weak, natural gas has been cheap relative to crude oils, and so our chemicals have been more competitive in Europe; and if Europe's economy is weak, that's going to affect lots of different US products.

Roach: Okay, thank you.

Procopio: I don't think I see any questions from the panel, but I do want to just quickly … see if anyone in the audience [has questions], because I think it was Steve Stockstill who actually requested this [presentation] in the first place. Steve, do you want to come up?

Mr. Steven Stockstill, executive director, FRS, comes to the table to offer testimony.

Stockstill: Good morning, Dr. Terrell. If we could go back to your presentation, maybe the third or fourth slide … shows the consensus for the S&P. [Terrell get's the requested slide up on the screen.] Right there, the stock prices, on the last line is the S&P and … let me ask, if the chart shows that as of June 30 2012, the consensus of economists that were surveyed in the Livingston Survey project the S&P 500 to be at 1413.5. Is that the correct way to read that?

Terrell: In June, so this was … when they were surveyed—and my guess is the survey was about January or February because this data is running a little bit behind—they were forecasting … better performance than we actually observed because we can look back.… I think you're making a good point that, if we take a look at the actual S&P 500, it's below the levels that they were projecting.

Stockstill: All right, and those were for [calendar year] '12. Dr. Terrell, do we have, or did the Livingston economists who were surveyed, give projections further out than '12 so that … their target audience would know what the '13, '14. '15 years, or maybe the '20 year would look like for the S&P?

Terrell: I'll check into that. My impression is that they have a fairly short horizon on… Now, the good thing about this is the Livingston Survey will be updated fairly soon, and I can also check and see if … there are more recent results than what I just pulled from the Philadelphia Fed webpage.

Stockstill: Well, if their initial projections were more optimistic than expected and they got negative surprises, would you say that the same would correlate for the fixed income market, or is there any type of survey that would show us the corollary to the fixed income market?

Terrell: With regard to yield, or with regard…

Stockstill: With regard to yield.

Terrell: I think in terms of the fixed income market, the Fed is, I don't think you're likely in the short-term horizon to see significant increases in the fixed income yield just because the Fed has a policy it's focused on keeping those rates down to stimulate the economy.

Stockstill: Okay, and I appreciate that. What I was wondering is if the consensus, the broad consensus that was made part of the Livingston Survey, had a particular projection for yield as part of the survey?

Terrell: They do have, there … may be one more yield. I should … probably just look up the information and send it to you, if you want to give me your card.

Stockstill: I'll be glad to, and really what I was looking at is, say, the next three to five years if we can get in that range. But, yes, I'll be glad to follow up. Thank you, Doctor.

Procopio: Are there any other question or… Dek, did you have any other final comments?

Terrell: No.

Procopio: Thank you very much. It's a lot of information, and I know the panel appreciates it. If you have any other information, you can send it to me and I'll send it out to everyone.

Terrell: Thank you very much.

VI. DISCUSSION OF POSSIBLE DEVELOPMENT OF NEW RETIREMENT PLANS FOR NEW HIRES

Procopio: One of the things that we had on the agenda—discussion on the possible development of new retirement plans for new hires—this was something that was also raised at the last meeting we had. What we did is, in your packet you should see testimony from a previous funding review panel. [It] has a lot of information in it.… Probably most people didn't get a chance to review it, but I would suggest that [you do]. There's a lot of information from a lot of different sources, including from Matt [Tessier, attorney for the House Retirement Committee] and Paul [Richmond, manager of actuarial services, Office of Legislative Auditor]. Particularly on the development of a new retirement plan, but there's a lot of information on cost shifting and those sort of things. That being said, one of the things I think you, Mayor Roach, … had talked about was looking at the previous Funding Review Panel, [which] kind of made changes to the existing system. One of the objectives possibly of this panel would be to look at a new system going forward for new employees, and I was wondering if you had any more thoughts on that you'd want to share.

Roach: Mr. Procopio, I have asked the staff with the LMA to take a look at Act 992 of the 2010 regular session to see if they could come up with an outline that they could suggest to the committee for consideration, and they're doing that right now. They're going through the analysis. And I think by the time we have our next meeting, they would be in a position to discuss that in detail. But I think the analysis that you have here in the minutes—and I certainly appreciate you circulating that with the members—has a pretty good explanation of what Act 992 did and what was the motivation behind it. One of the comments that was made in here—and I was looking for my copy and I couldn't find it—but I remember in reading, it they talked about the fact that it felt like that legislation could be adapted to the municipal plans that we have both for our police and municipal employees. …But, in order for us to do this, it would take a lot of work; and I wouldn't want to go through that exercise if the committee wasn't receptive to it. But I think it is certainly something that we should consider and look at. It's a plan that affects new hires only; it does not affect existing benefits for existing employees in existing systems. But it would be a new hire program that would be structured in a manner similar to what the legislature did in 2010. So, I just throw that out for consideration by the committee and would … like some feedback because, like I said, it will take staff a pretty good effort to adapt it, or at least present something for us to look at. But I don't want to ask them to do that if the committee is really not interested in doing that.

Procopio: All right, so what does the committee think? Mr. Dean.

Dean: I do believe, Dr. Procopio, that you sent out an email, and I don't know which document it was, but I can tell you what page it was—page 23—and it was a dissertation given by Mr. Tessier relative to changes, I believe, under Act 992. I don't think this board should discount this at all, but I think it's incumbent upon this board to look at alternatives. I'm not asking us to reinvent the wheel, but if we do, we ought to have several options before us. So I know, Mayor Roach, you said the LMA is looking at the provisions under 992 and possibly breaking them down for presentation to the board. I would ask that we somehow—and I don't know if the board has to do it themselves or not—also look at other alternatives, because some of the points that were brought up under 992 were not anything drastic, but it was hazardous vs. non-hazardous; final average compensation from three to five years. I believe that you went from a retirement at 50 or 55 to 60; you could do that at 10 years, if I'm recalling the right facts of the document that I read. If that worked for those particular systems—and one of the things that was pointed out in Mr. Tessier's presentation [was] that it was based on uniformity, and that seemed to be the goal or the objective at that particular time when *(momentary loss of video feed)* …alternatives, that there are a lot of suggestions not specifically at this time, and I don't mind bringing some to the board to myself or by myself. I can do two things: I can research it myself and really show you my ignorance when it comes to this arena, or we could ask maybe our actuary to do it, if he's familiar with other plans and not only in the Louisiana State system. And Gary [Curran], I didn't mean to put you on the spot, but that's our relationship buddy *(laughs)*.

Procopio: Okay … Mr. Curran, do you want to come up for a second?

Mr. Gary Curran, actuary, G.S. Curran and Company, Ltd., comes to the table to offer testimony.

Procopio: So the question is do you think, other than 992, there are alternative models we could maybe look at that might serve the purpose of at least fostering discussion on what a new system might look like?

Curran: An infinite variety. I think … to me, the best way to approach this is to look at the components of assembling benefits and to make decisions based on those components to assemble it. When you break it down, there are probably five to six big drivers of costs. Eligibility age is one of the real important ones, obviously. Accrual rates, final average compensation measurement periods—those are, you know the things that really drive it. Also… things like disability and survivor are in there, but not to that extent. So, when you're talking about re-design in terms of whether it be a new system or just new tiers within existing systems which, you know, [are] financially equivalent, I think it makes … a lot of sense to try and, rather than just coming up with arbitrarily set of parameters, to look at the pieces and see where you're headed with it. Now, you need to coordinate to a certain extent, but be a somewhat independent decision. We know what the general eligibility standards are right now for these plans, and … if we want to save costs, then … we're going to have to pick on some of these parameters to achieve those cost savings. So… final average [compensation]—possibilities to lengthen that. Accrual rates—one possibility is to reduce eligibility ages. One possibility is to raise them or a combination of those things, but to the extent, how far do you want to go in terms of developing something that's workable—this is certainly a subjective judgment. There's no magic place to be; it's trying to put it all in place. And also I think you have to be careful too because it's not just a retirement issue, it's a workforce issue. I've seen a lot of times where we've had plan designs that work in cross purposes to each other. We design plans that let people out early, and then we're faced with labor shortages and trying to put some kicker in the plan to have them stay around. It's sort of like with the Teachers Retirement System. You have a 20-year retirement, then we have the educational establishment saying we can't hold on to our teachers. Well, guess why? You let them retire at 20 years. And then you have a policy to try and achieve the objective of having them stay longer, and you get competing elements within the plan that just don't make any sense at all. I think you not only need to go at this from the standpoint of trying to save money, but to also build a program that makes sense with regard to workforce issues that you're facing; you have to be very careful because you could push the workforce in one direction and the other that you can create collateral problems.

Procopio: Okay, we're having… Mr. Roach you wanted to come up and we're also having a couple of questions if we can get to the questions, maybe then Mr. Roach, Mr. Rust?

Rust: Gary, you know we've looked at this ad nauseum in our board meetings, as we did, I guess, the day before yesterday. If you put a new structure—and we don't want it how it is, but later retirement, lower accrual, all of that—in the three systems that you're the actuary for…. How long would it take to have a reasonable… I mean what's reasonable, what's meaningful… an impact on cost, and what would that be? Can you guess?

Curran: Well, I mean, it's so dependent on what you're talking about, but generally these new-hire-only provisions, before you get much of any measurable effect, it's usually three to five years … because the replacement of that population, the turnover is not that rapid…

Rust: Would it pick up after that?

Curran: Yes … yes, it would grow, yes, right, as the cohort grows as a part of the population, there may be a fair difference in terms of rate of roll-in as in cases like MERS versus Firefighters. Firefighters might take a lot longer to roll in a new benefit because they probably don't have the turnover that, say, MERS might have. Police, I'm not as familiar with stats on it, but maybe somewhere between the two. So, the rate at which that new hire benefit structure effects cost could be slower for public safety if they've got lower turnover, because you're not replacing the population with the new people. The others side is, I've been here before, I guess, having been around for about 25 years with the public systems, that I've seen sometimes decisions were not made because it just didn't seem like it was worth the trouble and it was going to take forever to have an effect. But, you know, 10 or 15 years ultimately gets here. If somebody made a decision to do some of this 10 years ago or 15 years ago, we wouldn't be sitting where we are. So it may seem like it's not sort of worth the effort to deal with some of this in that fashion, but you eventually do get down the road. But to answer your question, I think … from what we've seen in typical systems …, and it depends on the benefit, the change in the structure, but new hires only, I would say most of these systems would turn over enough so that about—and this is strictly a wild estimate—but I would guess somewhere in the 10- to 12-year range you'd have about half of the population turned over and you'd see about half of the savings. And then it's kind of a slow curve because you get the full savings when the last person of the existing cohort retires 35 years from now, but by that time, that population is very think.

Rust: That'd be 20 to 25 years, I think, till they retire, not 35…

Curran: No, you have people that do hang on, believe me (laughing), but you know, most of them do sort of a thin edge at that point.

Rust: Yes, some people are working longer. I signed a refund for a city worker who had passed away the other day, and to refund the money, and was still working for the city at the age of 83.

Curran: We have retired people, because the calculations come from all but some of these systems, in their 90's. I think the word that I stuck out, we had a person with 64 years of service credit (laughs)…. You know the old saying, we're working for nothing, you know, you just like the job.

Procopio: All right. Senator Guillory.

Guillory: Thank you, sir. Last year you made a major presentation to us, gave us a number of optional factors. If you can tell us what meeting that was, we can refer to those minutes. I'd like to go back and review those minutes also.

Procopio: We'll try and go back and find those minutes for you.

Curran: Yeah, I'm not sure I could give you the exact meeting or date.

Procopio: But that was when there was [some sort of] chart. Yes, I remember that.

Curran: I think both Charles [Hall] and I presented alternatives.

Guillory: Very, very thorough.

Curran: Let's see…

Procopio: Looks like it says August 25th.

Curran: What date was that, Henry?

Dean: I'm looking at one, September 17th of '10.

Curran: Yeah, I don't, Tom Ed has just given me a folder, but I don't see in there that presentation, but I know the meeting you're talking about, Senator. But off the top of my head, I just couldn't really tell you.

Procopio: We'll go back. Did you have questions about it? Or just wanted to get another version of it?

Guillory: I'd just like to refer to it. I think it would be relevant to the discussion this morning.

Procopio: We'll try to get the previous…I, there's actually probably a lot of previous discussion. How much of that is on the website still, is there?

Sullivan: I'd have to check the dates.… Video, of course, is immediately available, and Gary made presentations for both of the systems. Charles Hall made a presentation for the police … which we should be able to send out immediately, but those that are individual … (inaudible) probably be used to gather….

Procopio: So between the actuaries and legislative staff, we'll get together and try and find those different presentations, because I think you're right, those are very important to try and kind of get a sense of effect. Mayor Roach?

Roach: Gary, sometimes I feel like—and I know that y'all did a lot of work last year, I think the whole panel did a lot of work—and I think we were all somewhat, I guess, disappointed we didn't maybe come out with some more concrete recommendations that could deal with the problem. But I think we did come out with something, we made a little bit of progress, and I think we're hopefully able to build on that. I think the one thing that maybe we need to do is perhaps simplify the question and ask it maybe a different way, and that would be: What could we do? And this will be a question—maybe not, a question necessarily to you, but you do represent at least two of the systems—but … at least a question to the systems: What do we need to do to get the, given the present structure and the present foundation we're working with, what do we need to do or could we do to get that employer rate down to 18% to 20%?

Curran: Well … there's just a lot of factors there, Mayor Roach. If we just sort of pick an arbitrary number to try and get the rate down to, one of the problems—and I don't know, Bob, did you forward that email that I sent that to Randy—one of the problem's we've got is fixed cost. That is, if we shut the plan down and don't give anybody any more benefits, we've still got a cost to deal with because we've got unliquidated losses. I didn't go on a big dissertation in the email, but there's a lot of sources to that. The big one that we're dealing with right now is investment loss, but there are other pieces to all that that are built up over the years. Let me cover a couple of these for you so there will be a better understanding of the structure of that sort of legacy cost that we're grappling with. As I said, a large part of it that was recently added is investment revenue. But there are other significant segments. Part of it is mortality driven, and that's buried in the fact that we were having to revise mortality assumptions. As mortality improves, that generates assumption losses, which are in with the general liability losses. It's not really a magnitude, but it does add up in its cumulative because it's always moving in the same direction. You know, at least with the assets you have gains and losses. We don't ever have mortality gains, so it's small in magnitude, but overall aggregate direction is negative and against the plans. You have COLA (cost of living) losses, and they're cumulative. Every time we run a COLA, and it depends a lot on what the amortization is for the COLAs too, because some of them are pretty … if we're amortizing these things over periods that are longer than the future life expectancy of retiree's, and in some cases we may very well be de facto doing that. We're taking up existing liabilities, packaging them, and stretching them out for 30 years. You've got payments on these liabilities that are going to stretch well beyond the lifetime of the people receiving the benefits, so those are cumulative. Recently … COLAs are a non issue because everybody's sort of in what I call "COLA hell" because you can't give one because of the way the law is structured and everything. But, if you go back over a 20 or 30 year period, we've got all that cumulative layers of additional liability that we've built up, and those present problems. So these are structural types of things that are creating this sort of fixed cost that's with relation to benefits already earned and accrued, and indeed in some cases with regards to benefits being already paid to people who are already retired. The problem is that we've got so much leverage against us in that regard that I think it's going to be very difficult to get some of these rates down to levels that people think are acceptable, even by turning the benefit dial, because even if we cut future benefits for—just say we just slash benefits for existing persons drastically—you're not going to get a one for one reduction in the cost from that. You might be getting, if you cut the future benefits in half, you might cut your future cost by one-fourth or one-fifth, and that's the problem we're facing is that there's a lot ... I'm giving you generalities. Every system is structured different; every system has its own problems in terms of funding and so forth. It doesn't mean this is all insurmountable. I think one encouraging thing is what we're seeing, at least in some systems, is some unwinding in production of liability gains, which we expected all along, from things like salary increases below expectations, but that's not even uniform. Some systems are experiencing it to a greater extent than others. I guess … time will tell as to whether that persists or not. But at least, in some of the statewide systems, the liability gains, we know what the schedule of future cost increases will be with respect to the past investment losses. We don't know with respect to future investments, but we can schedule those out, and it looks like, in the case of some of the systems, that at least as much as maybe two-thirds of that will be offset by liability gains. And that's not true for all systems, but it's going to be a function of pay increases and other such things, and part of that has to do with the funding structure—what plan to what kind of funding method they're using—as to how that affects it. It's kind of complicated, and it's a little bit difficult to talk in generalities across the three plans because they're different in the way they're funded, and they're different in their demographics, so what's true for one is not necessarily true for the other. But trying to get those rates down, if you've got a system with rates in the mid-20s pushing up near 30%, trying to get that rate down to 18% … I don't think there's anything we can do. Events may unfold that may cause that rate to drop, but I don't think we've got enough control of the situation in and of ourselves from any action we can take to produce that large of a magnitude.

Roach: Okay, and I didn't mean to imply that you can do that on your own; I guess what I was…

Curran: I mean, when I say we can't do it, I mean that is within the purview of even re-structuring benefits. There are outside factors, things like the economy that we have no control over, but they may be bigger drivers of the process than things we do have control over. Obviously, if the market just perpetually has a run for three years and we get 25% sequential rates of return, we're in a different ball game, but not expecting that to occur. I think it's going to be very difficult. I think there's something we can do to reduce cost, but I'm just saying I … don't want to be over optimistic about the degree to which we can effect savings.

Roach: If we were to, and I guess the effort here is to try and do as much as we can…

Curran: Right.

Roach: …and to save as much as we can, but if we were to look at this from a short-term perspective and perhaps try to make some adjustments to the benefits structure short term, to try to see us through this tough period because, if what we're being told, or what has been suggested is a three- to five-year period of time, I don't think—I could be mistaken—but there's not going to be many communities that can afford to pay 25% plus for three to five years, and then … Humpty Dumpty is going to fall off the wall, and we're not going to be able to put him back together. It's going to be bad. It's incumbent upon all of us to try to figure out what to do, and I think what Mr. Dean is asking, and we're here trying to do the best that we can—but we're not actuaries and … we're not experts in retirement—all we can do is look at what others have done. And I think the legislature dealt with a lot of the different nuances of all the issues, and I think the discussion that is within our minutes from last year is a pretty good one about the analysis that we went through. I think the legislature should get a pretty good pat on the back for at least going through it. But somehow we need to get everybody together, and that's really what this Funding Review Panel is about … to come up with some type of, if nothing else, a short-term solution so that we don't break the bank and we don't lose the… we don't throw the baby out with the bathwater, so to speak, and lose the whole system for the retirees that we're trying to protect.

Curran: I understand.

Procopio: All right. Representative Cortez.

Cortez: Thank you. Mr. Curran, you talked about the eligibility age and sort of the moving parts, the accrual rate, the final average comp; but there's nowhere to talk about the required or assumed rates of returns and the affects that those have, and if changed—in my opinion, and I'm not an actuary by any stretch—if changed could actually force those other elements to be changed, it would seem to me. And I know we're living in an environment—and when I say an environment, a climate I'm talking about—is someone a little too early, the ten year loss, ten years of lost decade to that affect, but … it seems that its going, you know, where we're at with the assumed rates of returns, can you give me….

Curran: Yes, well, we have had a lost decade with regard to pensions and returns. Ten year rate of return averages on the geometric basis for most of these systems are down in the range of about 2% to 3% or lower, in some cases, one and a fraction. That's just put huge pressure on the system. It's not that we've had one year, it's just we keep getting bucketed with all this sort of stuff. I think you bring up a very good point because we're not only fighting this short-term problem that … Mayor Roach is talking about, but almost more critical is the potential long-term problem we face if we cannot get earnings that justify the assumed rates of return. And I think we're on the very, very edge of what can be justified; we may be out beyond that edge. It's going to be painful to start bringing in those expectations to lower levels. And at the same time, how do we justify the levels where we are? It's sort of a grave question, and it's a balancing act to deal with. We've recommended to a number of clients to reduce evaluation interest rates, and I'll actually recommend almost to anybody at this time opportunistically that, if it can be done, it be considered, if for those who have rates about 7.5%, it needs to be at least on the table and discussed. The effect is to raise cost, but the problem you face is…

Cortez: Who's the payer in that?

Curran: The payer as always is going to be either the… going to sources of cost, employees and employers or surrogates for the employers…

Cortez: And how many of those two payers want to increase…

Curran: No one wants to increase cost.

Cortez: So, therefore, we get to that point where we have unrealistic—let's get realistic first. Once we get realistic, then everybody has to agree to pay more or take less.

Curran: Those are really the only two alternatives. There's nothing else you can do. I also want to say this: that we went through, around in the early '90s, where people were really trying to push up evaluation interest rates, there's sort of a school of thought that says a lot of this stuff should be market driven. My response is yes, to some extent, but you need to be very, very slow about it because often conditions change and you can create more problems than you solve. So I don't think we just want to come in, slash and burn, cut the evaluation interest rate to 6% or 6.5%, but I do think we need to have our hand on the dial and ready to turn it. If we can get through the short-term problem and then address that long-term problem in the not too distant future, I think that's all that we need to look at.

Cortez: You've mentioned that over the last decade most systems are realizing about at two point something percent, think you said over the decade, and yet their assumed or required is in the seven and seven-to-eight, somewhere in that; anyway … and I don't know the math behind it, but it just seems to me, knowing when I have a loss in a given month in business or two months or three months, it seems like it could be multiple decades to recoup that, maybe 50 years, if you don't adjust.

Curran: Well, we've also looked at the 20-year returns, and they're a little bit more encouraging. In the case of 20 years, most of the returns are in the seven and a fraction range. So to the extent that this is cyclical, it made, the recovery could be there. We've got long-term structural economic problems in the country; they're going to be rippling through the pension community. If, on the other hand, if we're in some sort of cyclical downturn and get back into what could be referred to as something near normal, then the problem won't be as severe. I don't think anyone knows the answer to that issue at this point. We have assumed rates of returns that are, as I've said, that I consider the end of the envelope. No one knows the number. We have to pick something that's reasonable. There's some envelope that makes some kind of sense, with that envelope where it is, certainly I think everybody, well not everybody, but I think most actuaries in systems would go back five, six, seven, eight years ago, and said envelopes somewhere between 7.5% to 8.5%, eight was kind of like dead center. If eight is anywhere right now, it's at the very edge. So we've got this short-term problem, we've also got some potential long-term problems, and we need to work our way through both of them in order for the plans to survive.

Cortez: I just, I feel … I feel that we're backing ourselves into a position of needing lottery years going forward for many, many years to get back to where we need to be or, as Mayor Roach said, Humpty Dumpty is going to fall. And that's the scenario that I guess—personally, I'm sitting here [and] my concern is to not leave my fingerprints on the possibility of … do nothing and let Humpty Dumpty fall, but rather try to do something to fix it so that … when I'm gone from here and the 30 years comes, that there's still a system around for many of the members.

Procopio: Representative Pearson.

Pearson: Thank you, Mr. Procopio. Gary, one thing that, when you were discussing how the systems are working, here we're primarily talking about the three systems: Firefighters, MERS, and Police. But did you say at some point in time, because I know in the state we kind of have frozen salaries, but do you have different—or is this your area—where we would have actually some cities, all of them are saying how they can' afford the employer contributions. But there are actually still those that are saying that to me on one hand, but … increases…

Curran: We're still, I know in the case of Firefighters, we have not seen what I would call significant liability gains yet from the system, sort of much to my surprise, but I don't know, I don't know whether those conditions will change or not. I'm just trying to get a copy of the report up so I can give you, see if we have a… where we stood on that. We had a very small—actually, looking at last year's valuation for Firefighters, we had a small liability loss for them. And I think that we either had a situation where salaries were probably fairly near projection or slightly over. I don't want to comment on it too much without having my notes in front of me, but just through recollection, when we did the valuations it, in contrast with some other systems, we actually had significant under-increase, if you will, on salaries, and that presented gains. We didn't see that as far as last year, and quite frankly, I was surprised that we didn't.

Pearson: Okay, that was pretty much it, thank you.

Procopio: Mr. Richmond, you have been waiting patiently.

Mr. Paul Richmond, manager of actuarial services for the Office of Legislative Auditor, comes to the table to give testimony.

Richmond: I think we need to step back a little bit and ask some fundamental questions about our pension plans. The first question I think we need to ask is how much is enough? How much should—no, how much do employees or how much do people *need* in retirement? How much income? There's two competing theories. One is that pensions are a reward for service, for long service. The second is that pensions are a benefit to provide to your employees when they're no longer able to be gainfully employed. It's sort of like a de facto disability. You reach a certain age in which you're presumed not to be able to be, you know, substantially employed; and therefore, we need to provide for you, and so you provide a pension to take care of them. The average working lifetime of a person is from twenty to sixty-five, twenty-two to sixty-five, sixty-seven, and it's getting longer. That's when the presumed health should exist. So the first question I think that you need to ask is how much does a person need in retirement relative to the income they earned before retirement? Studies for long periods of time, studies have shown that a replacement income, a retirement income of 70 to 75%, 80%, in the 70% to 80% range for over a career, that is a reasonable replacement income for somebody in retirement, based upon what they earned immediately before retirement. The second question is when should they get that benefit? Should they get that benefit at age 50, at age 55, at age 65, age 70? And that gets the fundamental questions—got to respect the fundamental question of what is the purpose of pensions? Is it a reward for service or is it a benefit for when you're presumed no longer able to be gainfully employed? So that's the second fundamental question. The third question is how much can we afford? How much can the state afford or the governmental entity that's supporting these employees or paying for these pensions, how much can you afford? And there are two components to that. One is how much can we afford if everything goes according to the actuarial assumptions, normal cost of 5%, 6%, 7%, 8% of pay or, well, the second question is recognizing that there's extreme volatility in those contribution requirements, the normal cost on a normal basis. That volatility because of the market, because of pay increases, all sorts of reasons that normal cost of 7% of pay can range as high as 25% of pay in some years to zero. It can fluctuate that widely. So, if you put a pension plan in, you've got to recognize that some years you're going to be … you may have to contribute 20, even though the cost, the predicted cost is only six or seven. Other years you may have zero. So that's another fundamental question. The third is, or the next question is, what can I control today? Well, you've got to look at what you've promised to date, and what you're going to promise in the future. What have you promised? What you promise today is all the service credits that have been earned and promised the people right now. When you change the promises for future people and say for future employees, that affects those future employees. As Gary has spoken, if you change a pension plan from a 2.5% per year of service to 2% per year of service and the normal cost was 8 and it went down to 6, it doesn't really affect cost all that radically where the cost of savings is dealing with the cost, the promises that have already been made and how, if you really getting back to Mayor Roach's question , if you really have to get back to an 18% contribution rate or a limit of 18% or whatever you set the limit, the only way to do that is to reduce benefits or to go back on the promises that have been made to date. And that's tough. That's the realities of it. Now, other strategies that you can make are, well, let's defer contributions—you know, if it goes over, if the rate goes over 18, let's not pay, lets only pay 18—that exacerbates the problem next year and down the road. Bottom line is there's some tough, tough choices that, as leaders of, as governmental leaders, that we all have to make; and those choices are just not going to be very pleasant. But that's the reality of either we address these questions, we ask these questions, we come up with the answers, or we will allow events and factors to control our lives.

Procopio: Mayor Roach.

Roach: Yeah, I kind of, a thought occurred as I was listening to your comment that there's really two ways to handle the problem, and that is to either ignore it and let it fail, or propose a solution and keep it alive. That's, I mean, if we don't change anything—and I would like to ask this of both of you—if we don't make any changes, then in all probability, it's going to get to a point where we can't afford it, would you agree with that?

Richmond: I would agree with that, and the painful changes are going to be changing some of the promises. The only thing you can really do to effect the near term, unless you want to kick the can down the road, the only thing you can do to change the near term is to change some of the promises that have already been extended.

Roach: I think we had a series of meetings last year, and in one of those meetings we talked about changing the promises. And I think we're pretty well locked in with the constitution that we can't change those promises, we have to fund those promises one way or the other. And if we don't fund them, I guess we'll, in an indirect way, we can change them just by saying we go bankrupt and then we have to deal with those consequences. But, and nobody up here is suggesting that—I want to make sure everybody understands that—but I think that the point is that we … I told a group of people yesterday I would rather be talking about something else, I got plenty to do back home, plenty to do. I can promise you. And that doesn't even touch on retirement. That touching on retirement, and if I don't deal with this problem, it's going to affect everything I'm doing back home. That's just the reality, and so I'm looking for suggestions. And I don't want to, I don't want this—and this will be, I think Steven understands this—we're not here to do this *to* anybody. We want to do it *with* everybody. And come to some sort of reasonable understanding. And I think that there's probably this misconception out there historically, and if we've fostered it one way or another, that the government's just made out of money and we've got money here, we got money there. But I think the reality is that the chickens are coming home to roost, not only at the local level, but the federal level as well. There was an article in the *USA Today* yesterday that talked about the fact that the pension benefits for federal employees is … the unfunded liability is almost as bad as Social Security. I don't know how the government's going to deal with that. And … anyway, we're looking for constructive suggestions, we're looking for solutions. I put the item on the agenda today to talk about making changes in a, in the benefit plans, the structured benefits for the various systems that we have , prospectively going forward, and I think that that discussion will at least enable us to talk about some of these component of the cost of retirement, and talking about how much we accrue each year, talk about the age of retirement, talk about those things both of you have touched on. But at least it gets us into that exercise of looking at those things. And then I think both of you are saying that, until we deal with the benefit structure for existing employees going forward, that we're not going to see those rates, those employer rates or those contribution rates in totality coming down any time soon.

Procopio: Thank you. Representative Pearson.

Pearson: Thank you, Mr. Procopio. Gentlemen, and I guess Paul and especially Gary, I think last year, and based on what Mayor Roach was just saying, we're discussing promised benefits; and I do recall, I believe it was last year, at some point in time at a Funding Review Panel meeting, there was perhaps a difference in agreement. Two attorneys said that the benefits that are promised are those benefits that are promised to date. I mean, if an employee could be terminated tomorrow, there's really no promised benefits; otherwise, he'd be able to collect benefits even though he was terminated. But under the assumption that, as I believe, two out of three attorneys, one was indifferent, but two said that they did believe that respectively, perspective future benefits are not necessarily promised in their current form, assuming that, is there room to make adjustment? That is an area that could make a considerable difference. Is there a way by changing, obviously probably not the retirement age, but the accrual rate? … On future, and I mean on future years.

Richmond: There are, first of all, that battle is being fought throughout the country with state and public retirement systems because it's long been held that the promise is a promise. It's—in generalities, it's part of the contract. But the language supporting that contract varies widely from state to state and governmental entity to governmental entity. Obviously, various governmental entities are taking steps to cut back on the benefit promises, and that's being fought out in the courts. Who knows where that's going to shake out? So I'm not going to comment … I have no idea where we'd shake out in Louisiana. But there are two things that you, for promises that have been made to date, there are two ways of dividing that. One is the promises that have been made to date and looking at the benefit that has actually been earned to date. If you will, pensions are a form of differed compensation…. And the extent that I've earned rendered service and given up direct compensation in exchange for the deferred compensation of my benefit accrual based upon my years of service, you know, that's probably pretty solid. Okay? But open to question is, well, what about if I change the accrual rate for Paul Richmond from 2.5% per year of service for the coming years to 2% per year of service for the coming years, but I protect what I've accrued to date, that's guaranteed. All right? That's perhaps where the … I think that's where the battle is being fought.

Pearson: That is the question.

Procopio – Steven, do you want to [comment]? I think you may have been one of those three attorneys.

Stockstill: At the time we went through that hearing, I was very cautious, Rep. Pearson, because I've been practicing law for 20 years, and one of the things I learned is not to let someone who is anxious for information to drive you to draw a conclusion when there are not enough facts to be certain about the conclusion. And so, for that reason, I was somewhat ambiguous in my responses. But when House Bill 332 was filed, when I read the bill—I believe it was on the day it was filed—the first thing I did was, I got on the phone and I called Tom Ed McHugh. And I said I just want to tell you, so that we have this understanding between you and I now, that I've seen HB 332; I think the way it is drafted is legal. So once we had something concrete that I could pass an opinion on, I did. And I called him to let him know that because I think he and others were somewhat frustrated that I wouldn't land on a bright line while we were just talking in concepts. But I do believe—and let me tell you the opinion that I express to you today is not uniform amongst all the attorneys in the statewide systems, I can tell you there are those that disagree with me—but I believe that, if you were to take Mr. Richmond and say, all right, his benefit accrual rate to this date is this, so you protect that, but then you change it prospectively, I do believe the courts would find that to be consistent with the rights that are protected in the Constitution. So I don't think that that would be held, in my opinion, I don't think that that would be held unconstitutional by the court now that we have something in place to judge that by. So I…

Pearson: And we're not picking on Mr. Richmond. I mean, it might be unconstitutional if we only did it to him. *(Laughter.)*

Stockstill: So please accept a professional apology for ambiguity in prior circumstances, but please see that I am certain when we have something that we can look at and say, all right, based on this, what is your opinion?

Pearson: And I didn't even recall who was the ambiguous one, so I wasn't directing that at you in anyway. I just remember there were two that were like, "Yeah, you can do that," and one that couldn't, but that helps, thank you.

Stockstill: And let me go back to the point, really when I came up to the table, Mr. Chairman, if you don't mind, I'd like to express a point having to deal with the benefits.

Procopio: Okay.

Stockstill: There is a famous poet who has passed on named Ronnie Van Zant who wrote a poem called "Free Bird," and the opening sentence, two sentences to the poem is, "If I were to leave tomorrow, would you still remember me?" And I'll be gone in a couple of years, and I hope that I can plant some seeds here that people will remember maybe, and that is the idea of not only stratifying the benefits, but also stratifying the cost. If Humpy Dumpty is a couple of—I'm sorry, I don't want to assign a number to it. If Humpty Dumpty is some smaller municipalities who are being burdened with a tremendous cost that is going to cause them to become insolvent, I'd like to know the feasibility of taking the cost structure of a plan and stratifying it to where you have larger employees, middle employees, and smaller employees, and assigning a contribution rate based on their impact to the plan; and perhaps that I don't know the feasibility of it, but it's something that we haven't explored. It may be totally unfeasible, but I learned in school that you look at all the options and then rule those that are not feasible out. So perhaps there could be some merit to that theory if we would have the opportunity to look at it; and I don't think it's totally unprecedented in concept, because the legislature did that with LASERS. Now LASERS is a multi-employer plan with its several divisions that feed into the one plan, and the law that was enacted, as you all well know, for that plan gave different rates for the different participants of the plan. So it's not a totally wild concept, it's been done. I just don't think it's been explored yet as it applies to the other systems. And, you know, in trying to be a good faith partner here and working with the employer, I'd like at least … to see or hear a dialogue along those lines, as whether the employers even think that's a feasible idea, and if they do, whether … they do think it's a feasible idea; perhaps that's something we could have a discussion about. Thank you.

Procopio: Mr. Dean.

Dean: I'd like to thank all three of you for dragging that guerilla into the room. Mayor Roach started on it, Mr. Cortez hit on it a little bit more, and the bottom line is, Gary, you mentioned it earlier. This board is tasked with several things, but one of the things is knowledge and gaining the knowledge relative to the different components to the different systems and how they're going to affect the municipalities and how they're going to affect the employees. Mr. Richmond, I am definitely aware of promises made; in fact, there are a couple of us sitting on this board right now that will guarantee you, when we slap that big guerilla in the face, it's going to end up in court and we know it. I think Steve alluded to that. I'm sorry you're not wearing a black robe right now, and you could make the final judgment. But I think promises made have to be looked at. And if we don't look at it, at this board, let's not just convene anymore. Just forget it. We're wasting our time here. Just because we make a recommendation doesn't mean it's going to go into the legislature or into the Senate. And if we make our recommendation and it does get in, it doesn't mean it's going to pass in any shape or form. But we're not doing our job if we just totally ignore it, . [If] we stick our head in the sand, this problem is going to be up here next year and the year after, and you know what? Maybe this committee won't exist anymore because some municipalities won't' be around anymore. That's the truth. Some of the components that we have to look at, from my perspective as a police officer, is recruitment and retention. But you know what? It's not always a police officer. Mayors have to look at it; the legislature has to look at it also. I mean, they're serving their public, and part of the service that they deliver to … them and we have to deliver to them also, is to take all facets of this particular problem and look at them. We can't ignore them. So let's bring the guerilla in the room, let's look at it, and let's not only look at a copy of Bill 992, but let's look at some of the promises made and whether or not we're going to have to propose something to break those promises. Thank you.

Procopio: All right, if we don't have any other comments or questions from the panel, good discussion. Wait. I spoke too quickly. Mayor Roach.

Roach: Okay, I think we started the discussion when we got to the agenda item about the, [about] what we do with respect to a retirement plan for new hires. So I guess I would ask of the committee, from the discussion we've had this morning, is that something that the committee would like to consider; and if so, we will work on that and be prepared to deal with that at the next meeting.

Procopio: What would you like to do? Do you just want to open for comments….

Roach: I'll make a motion and see if I can get a second, how about that? I'll make a motion that we develop, that we request LMA and Louisiana Conference of Mayors to present their proposal relative to the retirement plan for new hires.

Procopio: And let me just put on this, because we had some precedent last time when the funding review panel met. We had, it was really a motion to look at things. It was not saying you were endorsing this idea, but it was an idea for further research. I just want to make that clear—and we've done that before—I just wanted to make sure that was clear for everyone. So Mr. Dean seconds. Do we have any discussion?

Roach: I think we have one comment.

Procopio: All right.

Roach: The man that's going to put it together, he might have something to ask of us.

Tom Ed McHugh, executive director of the Louisiana Municipal Association, comes to the table to testify.

McHugh: Certainly. I'm Tom Ed McHugh with the Louisiana Municipal Association. [The] LMA stands ready to do that. We would like to do that with representatives of the police, representatives of firefighters, and get some feedback before we take a position, and at least get their ideas for when we come here. We know full well that the things that have been discussed here—final average compensation, employee and employer contribution rate, accrual rate, eligibility in terms of years—those are the issues. And I mean, it's just a matter of putting numbers. We were looking at [Act] 992 to give us … because there's no experts in retirement at LMA, I promise you. We're just doing … looking at what, assuming that the state realizes that they have problems, and that this was not the solution to the problem, but a step in the right direction. I used an analogy yesterday when we were at the mid-city conference and they were discussing retirement: If I could, if I had a big block of granite and if I could with a sledge hammer just hit that rascal one time and everything fell off of it that I didn't want up there and I'd have a masterpiece, that would be a good way to do it. But I don't know of any artists that work that way. What do they do? They have to just chip, chip, chip, away. Now, we have to chip fast enough so that our communities are still there when we get through with the work, but we're going to have to chip away. And so we would like to work with the police and fire to get some feedback in the process of putting our business together, and then—not that they have to approve or endorse it, but at least get their understanding and their take on it—and then bring it to you as a recommendation. And I'd obviously take it through my board and that process to give you a firm recommendation.

Procopio: Questions?

McHugh: That's how we'd do it.

Procopio: All right, Mr. Nassif.

Nassif: It was mentioned earlier, Mr. Cortez I think asked and we never really got a straight answer because nobody knew: Is there any way to find out what if any benefits have been seen by the state systems since they've enacted 992? I know it's only been really a year and there's probably not going to be anything, but it's … are they going to see anything from the changes?

Procopio: I think, and … okay, Laura came up, but I was thinking it may be the actuary. I think there may be an assumed gain, and so there's been a reduction in the rate but the actual.

Laura Gail Sullivan, senate counsel, comes to the table to testify.

Sullivan: Act 992 only went into effect for persons hired on or after January 1, 2011, so there's only been six months that it's been in place. And with the hiring freeze that's kind of across most agencies, I don't think any gains have been seen from that yet, based on only six months and the actuarial evaluation of June 30.

Procopio: You're not going to get in actuals, but it would be nice if we could. Okay, we have a motion. Any further discussion? Okay, do we have any objection … to the motion? All right then, seeing no objection, the motion passes unanimously. And so we'll add that on there, I took that also, that was a motion for a new system for new hires, and I think Mr. Dean also talked about we should also look at the current promises. I don't know if we necessarily have a model for that, so that might be a little tougher to do, but I think that we'll need to leave that for an issue to look at. And if anyone has any issues in the next week or we … come up with some, please let me know and we'll try to get it on the agenda to discuss. So I definitely want to do that. And if the actuaries have anything, suggestions to look at, definitely we want to put that on the next agenda, so please let me know. If you don't have anything now, we can get it on there for next time.

And with that, we've kind of merged the next two agenda items together. So, is there anything else in terms of discussions of future meetings or topics for considerations? Let's just do the topics of consideration for future meetings. So we're going to have maybe that, I think, maybe an issue might be … [that] the actuarial reports are coming out, so I don't know if we're going to want to look at that or not.

Curran: I'm going to suggest … I'm going to suggest one other thing too, because part of the problem obviously is high contribution, but I think another component or problem is volatile contributions. I think nobody wants to pay 25%, but if you're getting there in little bits instead of having it slammed at you at one time and there may be some, we may should look at some of the funding structures to see if we can by law, what's already in the statute in some cases, to try and put in place maybe some kind of reserve accounts that we can use to buffer contributions or some procedures to do that. We've already got some things in the statute, we developed that funding deposit account, but it's really only practical for certain systems. We may want to look at what else may, or whether we need to spin on that concept to try and, you know, reduce contribution volatility. I think that's sort of, its collateral, but it's really a separate issue.

Procopio: Okay, that's a great idea. Mayor Roach.

Roach: Mr. Curran, I'm a little bit hard of hearing, and actually I've been told to get hearing aids, but I can't keep up with the batteries, but when I first heard this discussion about smoothing the rates over time, I thought they were saying schmoozing the rates over time. *(Laughter.)* And I thought, how can they be talking about this in public? Schmoozing. So, maybe what you're suggesting is that we could smooth the contribution, part of the contribution rate, because I can't speak for other communities, but it would be a lot easier for us if we knew that for the next seven years we were going to pay, regardless of what the required rate was, we were going to pay "X." It may be a little bit higher than what it should be, but at least it would give us the time to smooth out this problem a little bit. Is that kind of what you're talking about?

Curran: Yes, I think there's a few things that could be done around those lines and a lot of other people have other suggestions. I think the first step was made with this funding, the positive account concept that we've used, but because of the timing, when it passed, it wasn't hugely effective for most systems, [for] some of them it didn't have as significant impact on, but looking forward, I mean—it's not inconceivable to me at all—we're going to see really volatile returns in the stock market. For example, we may just get these really big years followed by a blow out in the following year, and it may be possible to build some reserve, in other words, to carry you through some of these periods. So I think it's at least worth examining that because, as I said, I believe that other than high contribution, volatile contributions are causing some of the problems as well.

Procopio: Representative Pearson.

Pearson: Gary, I was going to add on to that a little bit because what you're talking about is in years, obviously, when there's the 20% employer contributions or 30% if we do go to contribution, employer contribution rates such as you said, in Dreamland, 0%, we would still make sure that there was certainly a 12% or 15% going in an account.

Curran: Yes, some kind of mechanism to try and avoid the wild swings.

Pearson: But based on actually the smoothing that we do have in the systems, and even though last year, I mean last fiscal year was a good year with the market, in many cases we've still seen, I think based on some of the early reports, the actuarial rates of returns to the systems—that the systems have actually made or not even made that 8.25% or 7.5%, I think I've seen in most cases, because of the smoothing.

Curran: Yeah, and I think for most of these systems it'll probably be the next three years, less than, but maybe not to, you know, it varies, in some cases if you're, again, you get back to the leverage of the plan, a lot of these plans are sort of leveraged, maybe a 1% underperformance might produce something like, in terms of 1% actuarial return underperformance might produce like a half a percent increase in contribution rates, so if we get actuarial rates because of sort of the hangover from before that are down in the range of about 6% or 5% or 4%, you're talking about cost increase of 1% or 2%, not the, you know, 5% and 10% cost increases.

Pearson: But I think these systems, I mean, we can't really be in this false sense of security that next year the employer contribution rates are going to go from 30 to 15. I mean, this…

Curran: No, not going to happen

Pearson: …is going to be a long time, and what you're saying with that stabilizing mechanism is this is something we need to look for, for five and eight years down the road as the employer contribution…

Curran: Right, I mean, even if we do chip away at this and if we have anything near semi-normal markets, then we're expecting contribution rates to sort of plateau out in about three years and maybe start rolling off because we'll be, at that point in time, liquidating some of the gains we've had with the good years in the last year or two. So, you know, I think we should be looking forward to dealing with that when it comes as well but…

Pearson: Yeah, I totally agree. Thank you.

Procopio: All right, thank y'all. All right, anything else under other topics for discussion for the future? Okay, and again, if we think of something in the next week or so, we'll try and start gathering resources to address it. So if you have something, please email me and we'll try to send out a reminder email as well.

All right, so I want to also talk about future meetings. I think we originally had the idea that we might rotate around. I thought that was a good idea, it was my idea, but, and MPERS was quick to volunteer, and I appreciate that. I think we've actually had some feedback, believe it or not, there are actually people watching on the Internet, so if we can get the resources and availability to have it at a legislative meeting [room], I think for greater transparency and for those people that either can't or don't' want to show themselves at these meetings, that we should probably try and have it here if at all possible. I would think everyone that was interested in this meeting, I don't know why you'd spend two hours watching this meeting if you didn't have to, but apparently there are people out there…. *(Laughter.)* All right. So we'll try and have something in the legislative room if we can. Is there any other business going on to, any other business we want to discuss while we're here? Mr. Dean.

Dean: The projected meeting dates, are they always going to be on a Friday?

Procopio: No, we're also… there were a couple of things, if we prefer not to meet on a Friday, that would be fine. The first meeting was on a Tuesday… We didn't get a quorum for that meeting either.

Dean: Friday, I'm not bleeding or anything or crying, it's just Friday is a bad day for me, all day. Thursday is an excellent day.

Procopio: All right, we'll definitely see it and we'll try and rotate it around. We've got a quorum, and I'm not saying it necessarily had anything to do with the LSU game in town tomorrow, but maybe that had an effect, so we'll see what we can do. *(Laughter.)* All right, so we'll definitely look at changing it around. Any other items? Any other business or comments? All right, thank you. Do I have a motion to adjourn? Mr. Dean motions. Do we have a second? Mr. Rust seconds. No objection, the meeting is adjourned. Thank y'all very much for your time.

The meeting was adjourned at 11:32am.

Respectfully submitted,

Dr. Steven T. Procopio, designee of Commissioner Paul W. Rainwater

Date Approved by the Panel: **11/15/11**

FUNDING REVIEW PANEL

Tuesday, August 30, 2011
9:30 a.m.
House Committee Room 2
State Capitol
Baton Rouge, Louisiana

MINUTES

I. CALL TO ORDER

The meeting was called to order by Dr. Steven Procopio, designee of Commissioner Paul W. Rainwater, at 9:44 AM.

II. ROLL CALL

Recommendations Committee: voting members

Members Present:
Mr. Stacy Birdwell – member of the Firefighters' Retirement System (FRS)
selected by the FRS board of trustees
Mayor J. Lynn Lewis of Delhi
selected by the Louisiana Municipal Association (LMA)
Dr. Steven Procopio
designee of Commissioner Paul W. Rainwater
Mayor Randy Roach of Lake Charles
selected by the Louisiana Conference of Mayors (LCM)
Mr. Bob Rust – member of the Municipal Employees' Retirement System (MERS)
selected by the MERS board of trustees
Ms. Rina Thomas
appointed by the Governor

Members Absent:
Capt. Henry Dean – member of the Municipal Police Employees' Retirement System (MPERS), *selected by the MPERS board of trustees*

Advisory Committee: non-voting members

Members Present:
Mr. Charlie Fredieu
selected by the Professional Fire Fighters Association (PFFA)

Representative Kevin Pearson
chairman, House Retirement Committee

Members Absent:
Representative Paige Cortez – member of the House Retirement Committee
appointed by House Speaker Jim Tucker
Senator Butch Gautreaux
chairman, Senate Retirement Committee
Senator Elbert Guillory, member of the Senate Retirement Committee
appointed by Senate President Joel Chaisson
Mr. Chris Gillott
appointed by the Governor
Mr. Chris Nassif
selected by the International Union of Police (IUPA) from nominations submitted by the Louisiana organizations affiliated with the IUPA

Staff Members Present
Ms. Sue Israel – Acting Secretary
Ms. Laura Gail Sullivan – Senate Counsel

III. INTRODUCTORY COMMENTS AND REVIEW OF R.S. 11:108

Dr. Procopio welcomed the panel members and others in attendance and thanked everyone for being there. Because there was not a quorum present, Dr. Procopio advised that no business would be conducted during this meeting, although he suggested that the panel proceed with the meeting so that some organizational issues could be discussed.

At the request of Dr. Procopio, Senate Counsel Laura Gail Sullivan, who served as primary staff to the panel last year, presented an overview of the activities relevant to the 2011 legislative session. Ms. Sullivan advised that Rep. Pearson and Sen. Gautreaux had filed Act 332 as their effort to put into play the recommendations of the FRP. Those recommendations included adding some members to the board of MPERS; to give the FRS and MPERS the ability to maintain contribution rates at a higher level under certain circumstances, as MERS is permitted to do; to increase the employee contribution from 8% for FRS to a maximum of 10%, to increase from 7.5% at MPERS to a maximum of 10%, and those employee contributions which fluctuate between those two endpoints based on the total contributions necessary to maintain the system on an actuarially sound basis; that the legislature have the FRP continue; and to put in a 15% anti-spiking provision beginning July 1, 2011.

Ms. Sullivan stated that the original version of the bill attempted to put all of the recommendations in place, through some negotiation with the parties that are involved in the panel. The final legislation that was passed came out a little different than they had envisioned, but it was something that everybody felt embodied the spirit of what the FRP had recommended in the first place. The main thing for the panel members to know at this point, she advised, is that the panel is now a continuous body. The panel shall undertake a continuous and comprehensive review of the actuarial funding and benefit structure of the three systems. That provision is now in R.S. 11:108(D).

In addition, she advised that the panel was directed to report to the House and Senate committees on retirement and to the legislative auditor annually, with that report due by February 1 in even-numbered years and by March 1 in odd-numbered years. Thus, this panel's report for 2012 is due on February 1. She cautioned the panel that the pre-filing deadline for filing legislation is now prior to February 1. If the panel would like to make recommendations to be considered for legislation, she suggested that the panel issue its report by December 31, 2011, or in early January 2012.

Another change enacted through Act 332 is that the state treasurer, who had been serving as a member of the Recommendations Committee, was replaced by the commissioner of administration. The main duty of the treasurer, and now the commissioner, is to call the first meeting and to preside until a chairman is elected by the membership. Since there was not a quorum, she advised that Dr. Procopio will continue to preside until that vote is taken.

Dr. Procopio added that last year's panel had conducted a lot of meetings, many of which were very long meetings and which resulted in some impressive legislation, especially considering that it was a short fiscal session.

IV. ELECTION OF OFFICERS

Since there was not a quorum, election of officers did not take place.

V. DISCUSSION OF FUTURE MEETINGS, SCHEDULE, STAFFING, AND TOPICS FOR CONSIDERATION

Dr. Procopio said he would be asking for panel members to provide topics they would like to be considered for recommendation to the legislature. Mr. Rust stated that, with all the legislation that had been recommended by the panel last year, he was curious about what other matters the panel might have to consider. Dr. Procopio stated that the panel did spend a great deal of time going over a substantial number of matters, and they need to find out what topics they would like to reconsider this year, as there may have been some matters that the panel was unable to get to or some that they looked at and perhaps didn't decide at that time, or there may be some new things the panel would like to look at this year.

Mayor Roach said that, with the passage of HB 332 in the last session, the panel probably now has a better idea of the challenges they are facing to move legislation through the process. Unfortunately, he added, the problems facing the systems are not getting any better or any easier to manage. It was his thought that the panel should at least report to the legislature and keep them apprised of the status of the systems and the magnitude of the problems that the communities are faced with. He said in his conversations with some of the people involved with the three systems and related organizations, there appears to be some agreement that there may be a need to create new plans for the systems for their new hires, as was done for some other systems in the 2010 session. Unless you make substantive changes in the existing systems, he explained, you will not be able to "move the needle" very far. But in the effort to create a new system for new hires, he thought perhaps the panel would be able to develop a solution that may work for existing systems. He added that, in the least, he thought the panel owed the legislature a report that apprises them of the systems' financial position and the challenges they are facing, which he did not anticipate would be improving any time soon.

Dr. Procopio stated that legislation now provides for the three systems as well as the LMA and the LCM to provide staffing for the panel. Ms. Sullivan advised that the three retirement systems have always been responsible for providing some staffing for the panel, but the legislative staff has now been removed and replaced with the LMA and the LCM as entities that are responsible for providing whatever staffing as well as facilities that might be needed for the panel to do its work.

Dr. Procopio stated that, while the panel can continue to meet at the state capitol, which is a great facility, the systems may want to consider rotating the meetings at their facilities, if nothing else to see where all the systems reside; and perhaps the LMA could host a meeting at its facility as well. While this could be a way to share the responsibilities for staffing and hosting the meetings, he added that he wouldn't want that arrangement to be burdensome to anyone, so he wanted to get feedback from the parties involved. Mr. Rust stated that MERS would be happy to host, but their board room cannot accommodate an audience.

Mayor Roach said he liked the idea of rotating the meeting location, although it could end up being impractical. The LMA has a large enough conference room, but everyone may prefer to rotate so as not to give the impression that one group or organization was trying to influence the committee. While he didn't think that anyone on the panel would get that impression, he thought it important that the members of the systems understand that the panel is trying to be very fair and open in its processes and deliberations. There was some discussion that FRP may want to hold the next meeting in conjunction with LAPERS, but that was considered unlikely because everything is already booked up for the conference as well as the Saints game scheduled for that weekend. If that doesn't work out, a meeting the following week would be arranged. Ms. Kathy Bourque of MPERS stated that they would be happy to host the next FRP meeting in September if the meeting at LAPERS could not be arranged.

Regarding staffing, it was determined that actuaries should not be a problem because there are two actuaries between the three systems, and both are now within one firm. Mr. Steven Stockstill, Director of FRS, said if the meetings are rotated between the three systems, there would be no problems staffing, as each system has a built-in staff to utilize. He added that FRS would do whatever it takes to make the panel work. They will provide the minutes of whatever is needed. Regarding topics for consideration, Mr. Stockstill requested that some sort of economic information, along the lines of Dr. Richardson's economic report done last year, would be very helpful to him. Even though there is no funding to commission an ongoing study, he suggested that perhaps someone could arrange for a panel of economists to come and present to the FRP pro bono. He added that they need to know if the phenomenon of the flash crashes that have been experienced since 2008 are expected to continue or whether it is a phase that the economy will eventually outgrow and/or self-correct. They need guidance to know how to operate going forward. Dr. Procopio agreed and said he would try to arrange something for the next meeting. Mr. Rust added that industry or investment experts would be helpful also.

Mayor Roach suggested that the FRP chairman (not yet elected) solicit members and the systems for their ideas on material to cover and share with the group. With the brief time frame FRP has to do its work, they will need to get to work on this right away. Ms. Sullivan pointed out that, if the panel meets only once a month, in all practicality, that would mean meeting once in September, October, November, and December, although it's often difficult to get a meeting together in December at all. Then the January meeting would be dedicated to preparing the final report so that it can be submitted to the legislature by February 1, or earlier if they want to target the pre-filing deadline. Since one of the mandates of the panel is the continuous and comprehensive review of the actuarial funding, she said asked Mr. Greg Curran, an actuary for Curran and Associates, when the new valuations might be ready for the three systems, but he stated that the information may be not ready until late October or early November, which will leave one or two meetings in which the panel will not have a true picture of the current actuarial health of the systems. Mr. Curran stated that the determining factor in their preparations of the system valuation reports will be the auditors' financial reports, which are all done by the same auditing firm; but it could be difficult to have that information for all three systems done in time to provide the needed information for inclusion in the report to the legislature. He stated that they (the actuaries) wait to receive the information from the auditors before they complete their valuation reports because their reports are based on audited information. Mr. Rust confirmed what Mr. Curran said, adding that their audit report and actuarial report will not go before their board until the December meeting.

VI. OTHER BUSINESS

There was no other business.

VII. ADJOURNMENT

Dr. Procopio adjourned the meeting 10:15 AM.

Respectfully submitted,

Dr. Steven T. Procopio, designee of Commissioner Paul W. Rainwater

Date Approved by the Panel: 11/15/11